



Business books

From Armand Hammer
to New Age economics

16-page section

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How Italy's scandal has
affected business life

Special report, Pages 4-5



Small and hating

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French state industry

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the launching pad

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FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY MARCH 16 1993

D8523A

Tension mounts as North Korea warns of threat of war

North Korea, which faces international condemnation over its withdrawal from the nuclear Non-Proliferation treaty, yesterday heightened the tension by saying that war with South Korea could break out "at any time". Ri Tcheul, North Korean ambassador to the UN in Geneva, said bullets and shells were being fired "towards our side" in US-South Korean military exercises. "If we respond to it, it will mean an all-out war", he said.

Hoechst blast: One person died and another suffered serious burns in an explosion and fire at Hoechst's chemicals plant near Frankfurt. It was the sixth accident Hoechst has suffered in less than a month. Page 20; A troublesome brew, Page 29

VW shares fall after GM chief shuns job: Shares in German carmaker Volkswagen fell DM7.30 to DM285.50 (\$172) on the Frankfurt stock exchange amid uncertainty over the company's attempt to poach key executive J. Ignacio Lopez de Arriortua (left) from General Motors of the US. Page 21

UK tax rises likely: A sharp rise in UK manufacturing production provides a favourable background for today's Budget, which is expected to include higher taxes to curb the growing fiscal deficit. Page 10

Yeltsin plans plebiscite: Russian president Boris Yeltsin said his parliamentary opponents were seeking to restore communist rule and his aides signalled that he planned to secure popular support in a plebiscite. Page 30

UN's chief promised aid: The commander of UN forces in Bosnia, General Philippe Morillon, was promised aid for the besieged Muslim town of Srebrenica after talks with Serb leaders. Page 2

Poland's tough abortion policy: After pressure from the Roman Catholic church, a strict anti-abortion law will today replace Poland's liberal legislation.

Bombay bombs defused: Two 20kg bombs were defused in Bombay as India's commercial capital went back to work three days after a series of blasts killed 250 people.

Banks warned: Five of Indonesia's six largest banks reported higher pre-tax profits for 1992, although bankers warn the sector remains poorly regulated and burdened by non-performing debt. Page 25

EC may hit back: The European Commission is considering retaliation in response to the likely US decision next Monday to bar European companies from winning certain federal contracts in telecommunications and power generation. Page 3

Fears for China economy: Chinese prime minister Li Peng called for quicker reform of the country's economy, which grew by almost 13 per cent last year and prompted fears of overheating. Page 8

Early Australian republic ruled out: Australia's re-elected Labor prime minister, Paul Keating, ruled out abolition of the monarchy until after the next federal election, due in 1996. Page 8

Salvadoran amnesty: El Salvador's president Alfredo Cristiani has proposed an amnesty for military officers blamed by the United Nations for atrocities during the country's 10-year civil war. Page 6

HSBC Holdings, parent of Hongkong & Shanghai Banking Corporation, which acquired Midland Bank of the UK in July, reported a 94 per cent rise in 1992 pre-tax profits to £1.7bn (\$2.44bn). Page 21; Details, Page 28; Lex, Page 20

Insurer demands talks: Union des Assurances de Paris, France's largest insurance group, called on French holding company Suez to reopen negotiations about the future of French insurer Victoire and its German subsidiary, Colonia. Page 20

Rhône-Poulenc Rorer, pharmaceuticals unit of France's largest chemicals group, plans to buy up to 5m of its own shares to support their flagging price. Page 20

STOCK MARKET INDICES			
FT-SE 100	2322.4	(+4.5)	
Yield	4.14		
FT-SE Eurotrack 100	1158.62	(+7.7)	
FT-A All-Share	1424.95	(+0.2%)	
Nikkei	14,986.18	(+48.85)	
New York Composite	4,541.08	(+3.7)	
Dow Jones Ind. Ave.	4,541.08	(+3.7)	
S&P Composite	458.88	(+0.23)	
US LUNCHTIME RATES			
Federal Funds	3.1/4		
3-mo Treas. Bill: Yld	3.847%		
Long Bond	102.11		
Yield	6.987%		
LONDON MONEY			
3-mo Interbank	6.1/4	(6.1/4)	
Libor 6m bill future: Jun 1993	100.33	(100.33)	
NORTH SEA OIL (Aargau)			
Brut 15-day Apr	18.75	(18.71)	
Gold			
New York Comex Apr	328.8	(328.5)	
London	328.85	(327.75)	
STERLING			
New York Interbank	1.6257		
London:			
\$	1.6345	(1.634)	
DM	2.3828	(2.3875)	
FF	6.1025	(6.12)	
Sfr	2.1825	(same)	
Y	178.80	(178.75)	
2 index	77.2	(77.3)	
DOLLAR			
New York Interbank	1.69145		
DM	1.8495		
FF	1.5205		
Y	118.35		
London:			
DM	1.6915	(1.6855)	
FF	1.5476	(5.8625)	
Sfr	1.522	(1.5225)	
Y	118.5	(117.75)	
2 index	88.8	(86.7)	
Tokyo close	¥118.18		

Austria	S430	Greece	D209	Lux	U540	Qatar	OR12.00
Bahrain	Dm1.250	Hungary	P172	Malta	Lm0.80	S.Arabia	SR11
Belgium	BF50	Ireland	IR180	Morocco	MDH13	Singapore	S\$4.10
Bulgaria	Le25.00	India	Rs10	Neth	Fl 3.75	Slovak Rep	Kc50
Cyprus	CZ100	Indonesia	Rp200	Nigeria	Naira25	Spain	Pcs90
Czech Rep	Kc45	Israel	Sh5.25	Norway	Nkr10.00	Sweden	Sfr1.30
Denmark	Dkr15	Italy	L1200	Oman	ORI.10	Switzerland	Sfr2.50
Egypt	E£4.00	Jordan	Jd1.00	Pakistan	Rs35	Thailand	Sh50
Finland	Fm12	Korea	Won250	Philippines	Php45	Tunisia	Dm1.250
France	FF4.50	Kuwait	Kwd1.00	Poland	Zl22.00	Turkey	L1700
Germany	DM3.00	Lebanon	US\$1.25	Portugal	Esc216	UAE	Dh11.00

Amato says Italy faces north-south break-up

By David Marsh, European Editor, in London

MR GIULIANO AMATO, the Italian prime minister, yesterday said his country faced the risk of a break-up between north and south unless it made urgent changes to its electoral laws.

Mr Amato coupled his warning of possible secession with a strong call for establishment of a new political class to steer the country out of its crisis over corruption.

Speaking at the London School of Economics, Mr Amato said revelations of widespread illicit financing in business and politics gave Italy no choice but to "renew its ruling class".

If elections were held now under the proportional electoral system, dissatisfaction with established parties would lead to "the inevitable success of extremist parties".

The rightwing Lomhard League, which favours detaching the prosperous north from the poor south, would probably be the strongest party in parliament, Mr Amato said.

"If we can change the system towards the smallest amount of proportional representation that Italians are capable of introducing, then the danger of fragmentation would be smaller," Mr Amato said.

Italians vote in a national referendum on April 18 on a series of constitutional issues, including reforming the electoral system. The outcome is expected to increase pressure for an early general election.

Mr Amato, who has already announced his prospective retirement from politics, spelt out his vision of a "peaceful revolution" throughout Italy's ruling elite.

His eight-month old coalition has been at the centre of the political storm. Several ministers have been among more than 1,000 politicians, businessmen and officials implicated in the scandals.

Mr Renato Altissimo, leader of the small Liberal party, yesterday became the third head of an Italian political party to be investigated.

Milan magistrates said Mr Altissimo had been served notice that he was under investigation for alleged corruption.

He was one of at least seven new parliamentarians served with such notices yesterday.

The Liberals, with the Social Democrats, are the two junior partners in the four party coalition government. Until now the party has been little affected by the wave of corruption scandals.

As the scale of corruption unearthed during the last few weeks has increased, expectations of the future make-up of the Italian political system had "changed totally", Mr Amato said.

The aim in coming months was to "get new people out of the professions - ordinary citizens - into parliament, because the old people will not be acceptable any more," he said.

Speaking of the Christian Democrat and Socialist parties at the centre of scandals, Mr Amato said, "I don't expect these parties to be players in the new game. I don't expect these men [the parties' present leaders] to be leading figures in the new system."

Answering questions after his lecture on "Italy and Europe: The Rules of Chaos", Mr Amato avoided replying directly to a question about whether he could have intervened earlier.

Although Italians had been aware for years that political parties' financial resources exceeded legal limits, "very few people" were aware of the sheer size of the illegal funding, he said.

Italy's corruption scandal, Pages 4-5

Olivetti, deeper in loss, seeks \$561m

By Haig Simonian in Milan

OLIVETTI, the Italian computers and office equipment group, yesterday announced a £903bn (\$561m) rights issue and said it would report a sharply increased net loss of about £600bn for 1992.

The cash, to be raised through new shares and convertible bonds, will be used for expansion, notably in the increasingly linked areas of information technology and telecommunications.

"In the short term, the money will be used to bring debt down to zero," said Mr Carlo De Benedetti, Olivetti's chairman, whose listed CIR holding company controls the group.

"But we want to use the funds to accelerate Olivetti's development into new areas," he added yesterday. Last week, Olivetti took a stake in EO, a Silicon Valley start-up company marketing "personal communications" - pocket telephones with inbuilt fax and computing capabilities.

Olivetti's 1992 loss, to be announced officially in May, will be nearly 50 per cent larger than the £460bn lost in 1991. Sales fell by 6.8 per cent to £8,020bn and operating losses surged to £230bn from £28bn.

At the year-end, Olivetti's net debt stood at £900bn. The dividend will be omitted again, Mr De Benedetti said.

Mr De Benedetti said Olivetti faced further heavy restructuring

costs of between £200bn and £250bn this year, while the group is planning to shed a further 3,500 workers. The amount set aside for extraordinary costs and restructuring charges fell to £260bn in 1992 from £330bn in 1991, but the actual figure spent last year was £170bn higher, as it included money provided for in 1991, Mr De Benedetti said.

He said the rights issue, priced at the shares' nominal value of £1,000, indicated Olivetti's determination to survive. CIR would subscribe its full quota, costing about £300bn.

Shareholders will be offered six ordinary shares for every four shares, of whatever category, now held. Shareholders may subscribe to at least half their entitlement in the form of new equity, and the remainder as six-year convertible bonds.

The bonds, to be issued at the nominal price of £1,000 each, will pay interest of between 6 per cent and 8 per cent, and be interchangeable with the new shares.

The precise interest rate will be set at the time of the issue.

Mr George Verghese, European electronics analyst at Deutsche Bank in London said: "It's been timed very cleverly. The question is whether you want to invest in the computer industry. There are signs of recovery, but the question is when."

Lex, Page 20



Romanians besiege the Argentinian embassy in Bucharest after Argentina announced it was issuing visas. Nearly a quarter of a million Romanians have emigrated to various countries since exit controls were lifted following the overthrow of hardline communist rule in 1989

BA wins approval for USAir link-up

By George Graham in Washington, Michael Tait in New York and Danny Green in London

THE US gave temporary approval yesterday to British Airways' plans for a partnership with USAir but demanded that London and Washington renegotiate their aviation treaty to allow US airlines greater access to British airports.

Mr Federico Peña, US transportation secretary, agreed to BA's request for "code-sharing" with USAir, which the two carriers hope will create a "seamless service" by listing USAir's US flights and BA's transatlantic flights under the same codes in computer bookings systems.

He also approved plans for USAir to lease aircraft and crews to BA for London-Baltimore and London-Pittsburgh flights, but not for London-Charlotte.

Mr Peña said BA's initial \$300m investment in USAir did not breach US laws restricting foreign ownership of US airlines to 25 per cent, but that the second and third phases of the proposed deal, under which BA would invest a further \$450m, might not be completed unless the US Congress changed the law on foreign ownership.

This, he hoped, would provide the incentive for the UK to renegotiate the Bermuda 2 treaty. "If Congress doesn't act, British Airways will have invested \$300m and cannot proceed further. That is the hook," Mr Peña said. He said he would review the deal in a year.

The "big three" US carriers - American, United and Delta - which lobbied against the code-sharing arrangement, reacted to the announcement with "disappointment and puzzlement".

"There's not a bit of it which makes any policy sense," said one adviser.

British Airways welcomed Mr Peña's statement, saying it would begin the code-sharing arrangement to three US cities - Cleveland, Syracuse and Rochester - on May 1, as previously announced.

Sir Colin Marshall, BA's chairman, said he was delighted that passengers would be able to fly more easily between airports on the two airlines' networks.

Mr Peña said that, although he did not like the terms of the Bermuda 2 treaty between the UK and the US, the US could not

Hang Seng falls 5% as Li Peng launches attack

By Simon Holberton in Hong Kong, Tony Walker in Beijing and Philip Stephens in London

SHARE PRICES in Hong Kong slid by more than 5 per cent yesterday after Mr Li Peng, the Chinese premier, accused Mr Chris Patten, Hong Kong's governor, and the British government of "perfidiously" dishonouring agreements on the colony's transition to Chinese rule in 1997.

Mr Li, addressing the opening session of China's parliament, departed from his prepared text and made one of the sternest attacks yet by a Chinese leader since relations deteriorated last year after Mr Patten disclosed plans to extend Hong Kong's democratic reforms.

The speech followed the publication on Friday of Mr Patten's legislation to enact these reforms. Beijing's reaction hampers any early resumption of talks on the colony's future, and

adds to pressures on Mr Patten from an increasingly nervous local business community.

The Hang Seng index fell 315.79, or 5.1 per cent, to close at 5,854.61, leaving it a full 10 per cent below its peak, reached a week ago.

Senior business leaders called for calm. Sir William Purves, chairman of HSBC Holdings, the owner of Hongkong Bank and of Midland Bank of the UK, said he remained optimistic about Hong Kong's future in spite of the political problems between the colony and China.

He warned, however, that domestic business confidence could be affected and that foreign investors might be "frightened off" if the row dragged on. "I very much hope that [Britain and China] can sit down and devise a way forward for the 1995 elections," he said.

Britain stressed that it remained willing to hold "uncon-

ditional" talks with Beijing on its plans for political reform in Hong Kong.

But in an otherwise conciliatory statement in the House of Commons, Mr Douglas Hurd, foreign secretary, insisted that the London government would not accept the downgrading of Hong Kong's role in any negotiations. Speaking with the overwhelming support of MPs from all the main parties, Mr Hurd stressed there was still time for talks with Beijing to modify Mr Patten's plans.

But the foreign secretary flatly rejected a charge by Mr Li that Mr Patten's proposals were in contravention of the Basic Law governing Hong Kong's future. Referring to Beijing's demand that the status of Hong Kong officials in any talks be downgraded, he said: "The implication of that

Continued on Page 20
Call for rapid reform revives fears of overheating, Page 8

When you know your worth



Omega Constellation.
Automatic chronometer
with date, in 18 k gold.
Scratch-resistant sapphire crystal.
Water-resistant.
Swiss made since 1848.

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NEWS: EUROPE

Kohl speaks out in support of Yeltsin

By Quentin Peel in Bonn,
David Buchan in Paris and
Charles Leadbeater in Tokyo

CHANCELLOR Helmut Kohl of Germany yesterday issued a ringing endorsement of Russian President Boris Yeltsin, warning that not only his domestic reform policy but the entire process of peaceful international co-operation was threatened by the political backlash in Moscow.

In a statement on political developments in Russia, Mr Kohl declared that the reforms pursued by Mr Yeltsin and his government were in the interests not only of Russia and its people, but also of all other countries, above all Germany. "I therefore emphatically endorse this process," he said.

President François Mitterrand of France will be carrying a similar message of support for Mr Yeltsin when he arrives in Moscow today. The visit will be "a chance for the French president to reaffirm how strongly France wants Russia to recover its balance," an Elysee spokesman said.

In his statement, Mr Kohl said: "President Yeltsin and the political groups which support him, striving for democracy and the rule of law, a market economy and, not least, a policy of peaceful co-operation with the world community, are increasingly threatened by

Mr Yuri Vorontsov, the Russian ambassador to the United Nations and a senior adviser to President Boris Yeltsin, yesterday urged the G7 nations to provide "a programme of sustained assistance" in order to shore up Mr Yeltsin's economic reforms. Alan Friedman writes from New York.

Mr Vorontsov, who made his remarks during a news conference at the New York Federal Reserve Bank, said: "The Russian people need to see that the west is still interested in a transition to a market economy."

Mr Gerald Corrigan, president of the New York Fed, announced yesterday that the Russian-American Bankers' Forum, a joint programme with nearly \$8m of 1993 funding, would host an eight-week programme this summer in the US that would train 250 middle and senior-level officials of Russian commercial banks in all aspects of banking and finance.

forces which want to stop the reform process in Russia."

Although Germany had reached the limits of its financial capacity to support Russia, the debate within the G7 over further ways of providing economic assistance "underlines the importance the western countries attach to the continuation of the reform process," he said.

The German government also attached vital importance to its bilateral relations with Russia, he added, in a statement which could be clearly seen as a direct warning to Mr Yeltsin's opponents in the Russian Congress of Deputies.

"Russia and Germany today enjoy relations which are free of tension, trusting and friendly. This is due in good measure to the achievements of Boris Yeltsin. We want these

relations to be developed in mutual interest and trust, so that a free, democratic Russia, based on a market economy, remains a peaceful, calculable and stable partner both for Germany and for all our neighbouring states."

Meanwhile, Japan seems set for a clash with the US, France and Germany over its opposition to an emergency summit to sanction further aid to Russia. The Japanese government is opposed to a summit meeting to consider the issue even though a meeting of G7 officials in Hong Kong over the weekend agreed to consider plans for further aid.

Japan insists it cannot consider further aid until Russia accepts Japan's claim to sovereignty over the four islands of the northern tip of Japan known as the northern territories.

By John Lloyd in Moscow and
Andrew Gowers in London

IT IS now clear that Mr Boris Yeltsin means to fight for supremacy. The president, say his advisers, has concluded that no further compromises are possible with his hardline opponents in the Congress of People's Deputies, and that he will strive, within constitutional limits, to beat them.

As Mr Yegor Gaidar, the former premier and now a key presidential aide, said yesterday: "The result of the Congress was to show that the policy of compromise has more or less reached its limit."

Mr Anatoly Chubais, the privatisation minister who was singled out for personal attack in the Congress session that ended on Saturday, agreed. Speaking in London yesterday during an official visit, he said the Congress had "destroyed the balance of power" in Russia, and that the president's response would be "strong and active, within the framework of existing laws."

The tactic now being considered by the president is to proceed to a plebiscite which, his advisers believe, he can do within the law on referendums. They say this law allows a poll of the population through the initiative of the citizens themselves, through the collection of 1m signatures. This plebiscite, likely to ask whether the people wish to see the president or the parliament in control of policy and perhaps also if they wish to see private ownership of land, may be supervised by international observers to ensure fair play.

At the same time, according to Mr Gaidar, the president may wish to secure support from the centre by appointing to the cabinet figures from the centre of politics - in particular from the Civic Union bloc, which includes the Russian Union of Industrialists, Vice-President Alexander Rut-



Business as usual: a Russian man speaking to an adviser at the Moscow privatisation centre yesterday when, despite the continuing political crisis, 1m shares in the Zil car factory were put on sale to the public at more than 100 locations. The sign in the background reads "Privatisation"

skol's Free Russia party and other forces.

That support from this quarter is still possible for Mr Yeltsin was underscored by Mr Oleg Rumyantsev, the young deputy who is secretary of the constitutional commission of parliament and leader of the Social Democratic Centre party. Noting that "one main feature of the last Congress

was that the centre did not make their views known," he said that "the solution to the deepening political crisis can only be found with the involvement of the centre forces."

In contrast to the veiled threats by Mr Yeltsin to take special measures to enforce his rule, most aides are anxious to avoid an authoritarian solution. Mr Chubais said: "A lot of

deputies thought last week that they would be arrested in the Kremlin. That is not the president's decision; he will take the legal course."

The parliamentary leadership, for its part, is certain that a referendum cannot be undertaken constitutionally. Mr Nikolai Ryabov, the first deputy chairman of parliament who in a speech on the second day of Congress last week unequivocally demoted Mr Yeltsin to second place after the parliament, said flatly at the weekend that "any move to a referendum which involves spending state funds must be regulated by law and needs to get parliamentary consent."

However, the constitutionality of the parliament's behaviour will now be challenged in the Constitutional Court. A group of 57 deputies from the pro-presidential Democratic Russia bloc yesterday published a statement disputing whether the decisions taken last week, and at the Seventh Congress in December, were constitutional.

The terrain of the struggle is the constitution but the prize is raw power, and the right to conduct reform. Mr Chubais said a positive result in the proposed referendum would be the start of a process leading to new elections and the adoption of a new constitution. On the other hand, he warned, if Mr Yeltsin's parliamentary opponents retain the upper hand, "at the next Congress (scheduled for June), we will lose the presidency or the president himself."

Brussels to seek fresh impetus for growth package

By Lionel Barber in Brussels

THE European Commission is considering fresh measures to stimulate growth because the response from EC member states remains inadequate, Mr Hennning Christophersen, economics commissioner, said yesterday.

Mr Christophersen said after a meeting of EC finance ministers in Brussels that the Commission may put forward new ideas on promoting investment and job creation at the EC summit in Copenhagen in June. "More needs to be done," he said.

The Danish presidency of the EC has called for a "Jumbo" meeting of finance ministers from the Twelve and the six members of the European Free Trade Area on April 19 in Luxembourg. The aim is to hitch a pan-European effort to the US recovery in an effort to stem rising unemployment which is undermining public confidence in the EC.

But only five states - Spain, Germany, Ireland, Portugal, and Denmark - have put plans to the Commission to bolster

the growth package. EC officials said yesterday that they looked forward to the UK contribution in today's budget.

At the meeting in Brussels, finance ministers hailed the long-awaited solidarity pact between the central government and Länder to finance German unification. "It will pave the way for lower interest rates not just in Germany but also in the rest of the EC," said Mr Christophersen. Lower German interest rates are vital if the EC is to attain the 3 per cent growth needed to halt unemployment, expected to rise to 17m in the EC this year.

The EC growth initiative combines a modest Community effort to promote lending to small and medium-sized companies through a new European investment fund and greater flexibility in European investment bank lending for infrastructure. But the main burden lies in supply-side measures by member states.

Separately, EC member states approved an ambitious convergence programme put forward by the Greek government.

French general meets Serbs to end aid deadlock

By Robert Mauthner,
Diplomatic Editor

GENERAL Philippe Morillon, the French commander of United Nations forces in Bosnia, left Srebrenica in eastern Bosnia yesterday for talks with the Bosnian Serb military commander aimed at bringing aid to the besieged town.

According to amateur radio reports, the flamboyant general, who has set up a command post in Srebrenica in a gesture of solidarity with its

thousands of suffering people, went to meet General Ratko Mladic, the Serb commander, near Bratunac, a Serb-held township some 15km away. He reportedly said after the talks that he hoped to get aid to Srebrenica today. It was not immediately clear when Gen Morillon would return there. He had promised not to leave until international aid convoys were allowed by Serb military to bring relief to the hungry, wounded and sick inhabitants of the town. The Serbs have

made it clear that they would not permit relief supplies to be delivered until Gen Morillon had left Srebrenica, where some 1,500 refugees are camped.

In an interview via amateur radio with Reuters television in Zagreb, Gen Morillon said just before leaving for his talks with Gen Mladic that he had asked for this meeting "to prove that I am absolutely free in my movements."

"I am in Srebrenica because I decided to remain (until)

every condition of the survival of this population is achieved," he said.

"The situation is naturally very, very difficult and that is the reason I will press for the opening of air and road corridors to be agreed as a first priority."

Earlier reports by a US TV reporter said Gen Morillon initially had been prevented from leaving Srebrenica by Muslim refugees who feared that the Serbs would shell them if the UN commander abandoned

them. "Then he changed completely; he became a man with a mission," the ABC network reporter said in a radio broadcast at the weekend.

"He told me the suffering that he has witnessed here is about the worst he has ever seen."

The French government said yesterday that it supported Gen Morillon's action in Srebrenica and that it was in line with UN Security Council resolutions on the safe passage of humanitarian aid to zones of

conflict in Bosnia. However, the UN secretariat's backing for Gen Morillon, appears to be more lukewarm.

The UN supports him "through gritted teeth," a diplomat said, stressing that the French commander was known as "something of a loose cannon."

While recognising the genuine humanitarian motives behind the general's action, it is feared that he may in the end do more harm than good by provoking the Serbs.

Bundesbank backs deal on solidarity pact

By Quentin Peel in Bonn

LEADING figures in Germany's banking community and members of the Bundesbank council yesterday welcomed the cross-party agreement on a solidarity pact for east Germany, in spite of concern about a rise in public sector borrowing.

Mr Reinut Jochimsen, president of the state central bank in North Rhine-Westphalia, and a leading Bundesbank council member, described the deal as a great success. He greeted it with "great relief", while stressing that many of the figures had yet to be agreed in detail.

Mr Hilmar Kopper, chief executive of Deutsche Bank, believed the central bank would not be entirely satisfied, but would continue to relax its monetary policy.

The deal is expected to provide a substantial increase in funds for invest-

ment in east German industry, and double the money available for a housing modernisation programme from DM300m (\$18bn) to DM600m.

Interest payments on the credit will be directly subsidised by the federal budget in Bonn, and the central government will also assume responsibility for servicing DM31bn in outstanding debts to the east German housing stock. The costs are all likely to add to the government's net borrowing requirement in

the next three years. A further rise in borrowing in the current year is almost inevitable, because of an agreement to provide an extra DM2bn for job creation schemes, pushing up the 1993 borrowing requirement of the central government from DM51bn to DM53bn.

However, the Finance Ministry in Bonn said yesterday that no figure had been put on the increase in the borrowing limit of the Treuhand privatisation agency, reported at the weekend also to

be raised by DM30bn. A spokesman for the ministry said it was intended to keep the borrowing increase of the Treuhand within an agreed "buffer" of DM3bn per year for 1993 and 1994, on top of the DM30bn per year it is currently allowed to borrow. The extra money is intended both for restructuring "core industries" which cannot immediately be sold, and for cleaning up the ecological damage caused by the old industries.

Overall, the solidarity pact will provide the five eastern states with DM55.8bn from 1995 to finance their running costs, DM51bn at the expense of the central government, and DM4.9bn from the western states.

The Bundesbank council meets on Thursday amid continuing market speculation about the likelihood of further interest rate cuts.

Editorial Comment, page 19

Energy tax move by EC ministers

By David Gardner in Brussels

EUROPEAN Community finance ministers yesterday reserved the right to make the final decision on whether to introduce the controversial energy tax proposed by Brussels to stabilise carbon dioxide emissions.

Their proprietorial move came as the current Danish presidency of the EC confirmed it was calling a special meeting of environment and energy ministers on April 23 to try to break the logjam on the tax and the EC's overall emissions strategy.

There are still serious reservations among the Twelve about how the tax - which would rise to the equivalent of \$10 a barrel of oil by 2000 - would work. But introducing it at all has been made conditional on the EC's main trading partners following suit.

The finance ministers yesterday said they were encouraged by the recent US proposal to introduce a fuel tax but emphasised it was still not clear what was planned by the EC's other main competitors, such as Japan.

Denmark is nevertheless still hoping a decision can be reached at June's meeting of finance ministers.

Banks fail to face brave new world

A reports says European banking is ill-prepared for Emu, writes William Dawkins

MOST European Community banks are dangerously unprepared for the business and technical changes required to adapt to monetary union.

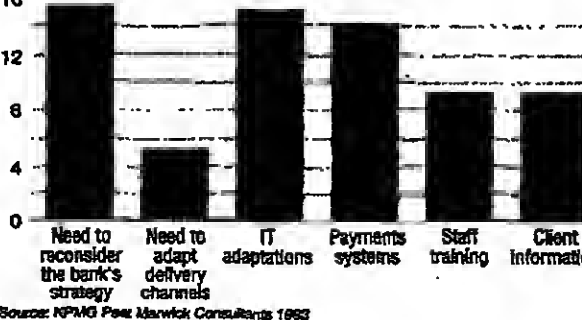
They have only a vague idea of when and how union will come, about one or two rough estimates of the time and cost of the changes - running as high as FF1.5bn (\$260m) per bank over at least two years, and possibly as many as five.

There will be upheaval on the European currency markets immediately prior to the fixing of exchange rates. That will be followed by intense international competition, which will see weaker banks going out of business as corporate and private customers take advantage of the single currency to seek the keenest prices and best services across frontiers. Trading between European currencies will then tail off, to be succeeded by more active, and hence riskier, trading between the European currency, the dollar and the yen.

That is the alarming picture in a study published today by the Paris office of KPMG Peat Marwick Consultants after interviews with more than 50 leading European Community banks - one of the most detailed assessments yet of the practical impact of monetary union. "There is real danger of the banking industry being harmed by the uncertainty... continues," warns the report, which calls on governments to agree a firm date for

Banking on Emu

Question: which challenges brought about by Emu are seen as the most critical for banks?



Source: KPMG Peat Marwick Consultants 1993

monetary union and decide how it is to come about.

Most EC banks reckon that full monetary union will happen, but not until 1999 or later, in any case well after the Maastricht treaty timetable. They assume it will start with an inner core of countries, based on Germany, France and the Benelux trio and that national currencies will run in parallel with the single European currency for a while. This twin system will be more costly to banks, retailers and businesses than a straight switch. But bankers think politicians will want a twin-track transition with two currencies to reassure the public.

Broadly, monetary union will sharply accelerate the greater integration of European banking and the cross-border alliances between banks already under way. In detail, banks' currency

departments will be the hardest hit. Their revenue will fall sharply with the expected decline in trading between European currencies.

Banks, including continental ones, expect a trend towards centralised currency trading in London in the aftermath of union. That is irrespective of whether or not Britain rejoins the EMS and is because of lower UK taxes and the relative ease with which underperforming traders can be fired, thanks to Britain's opt-out of the Maastricht treaty's social chapter, says the survey.

Retail banking will be the next hardest hit by increased competition, with a fall in profits as market inefficiencies are exposed. Banks are expected to concentrate on selling existing products, especially plastic cards, to new foreign clients, rather than developing new products in this high-risk envi-

ronment. Retail banks will lose income from the declining need for travellers' cheques and exchange services. They know heavy investment in cross-border payments for small transactions will be needed, but believe this will cut operating costs in the medium to long term, says the study.

Competition will also intensify in corporate banking, where the ease with which customers will be able to compare pricing across Europe will make it harder for individual banks to persuade business customers that they offer special value.

As in retail banking, customers will demand better international payment systems. One practical hurdle here is how to reconcile the high-speed payments systems practised in continental Europe, where data only is exchanged between banks, with the UK system where banks physically exchange payment instruments. Bankers say they want a single European payment mechanism for large commercial transactions, in contrast to the several that today exist alongside Swift, the dominant Belgian-based payment system.

Investment banking will be less affected, since services such as mergers, buy-outs and project finance are more linked to general European integration than to the detail of monetary union. However, a successful and solid single European currency could help attract more cash to European equities. Monetary union will

boost moves towards a single European equity trading system by making it easier for buyers and sellers to compare share prices in different community stock markets, says the study.

European banks have not experienced an upheaval like this in recent memory, and are finding it hard to identify exactly where the main costs will arise.

The biggest cost will probably be changing computer systems for handling payments, customer information, automatic cash machines and - for retailers - redesigning point of sale terminals. Banks also expect to spend more on training.

Beyond that, the nearest parallel is the upheaval British banks experienced with the introduction of decimal coinage in 1971. Barclays alone purchased £10.5m of bronze coins, weighing 3,500 tonnes and shifted them to 1,000 storage centres before distribution to branches on the change-over day. That exercise took two years.

More recently UK banks took six months to phase in a new £10 note. European monetary union will be on an awesome different scale.

Consequences of Emu/Emu: Survey of the European Banking Industry, Ecu3,000 from Michel Demont, partner in charge of the financial sector, KPMG Peat Marwick Consultants (for the European Financial Management and Marketing Association) Tour Fiat, Cedex 16, 92084 Paris La Defense.

REPUBLIC OF PARAGUAY
MINISTRY OF PUBLIC WORKS
AND COMMUNICATIONS
DEPARTMENT OF COUNTRY ROADS
PROJECT FOR CONSOLIDATION OF RURAL COLONIES IN THE
AXES CORDONEL DIVIADO - MBUTUY AND CONCEPCION -
PEDRIO JUAN CABALLERO
LOAN AGREEMENTS Nos. 694/OC-PR AND 891/SF-PR
PREQUALIFICATION OF CONSTRUCTION COMPANIES
The Ministry of Public Works and Communications of the Republic of Paraguay invites Contractor Firms or Consortia of Contractor Firms of the Inter American Development Bank (IDB) countries that specialize in Road Construction Work to present prequalification proposals relating to the hiring of Contractor Firms or Joint Ventures Firms to carry out the work of Reconstruction and Improvement of the Country Roads Included in the subject Project, to be financed partially by the Inter American Development Bank through Loan Agreements Nos. 894/OC-PR and 891/SF-PR.
Therefore, financing of the Works are subject to the conditions of the said Agreements.
The sub-project comprises the constructions of approximately 436 Kilometers of roads consisting, in summary, of the construction of:
• Embankments
• Gravel surfacing of roadway
• Wooden bridges
• Reinforced concrete tube culverts
• Vertical roadsigns
• Turling
• Surfacing of road drains and energy dissipaters
In order to qualify, the Firms or Consortia of Firms must obtain a minimum of 75 points out of a possible total of 100. Details of the qualification system are set forth in the Specification of Bases and Conditions.
It is expected that the first bid, comprising 180 Kms, will be called in the month of July, 1993, and work expected to commence in December of the same year with an estimated term of completion of 20 months.
Side for the rest of the work will be called during the first semester of 1994, asuming that construction will commence in the second semester of the said year and with an estimated term of completion of 20 months.
The Specifications of Bases and Conditions may be obtained from the Administrative and Accounting Unit of the Country Road Department located at Oliva and Alberdi Streets, MOPC Building, 2nd Floor, Asuncion, Paraguay, by formal application and payment of (Gs.100,000) One Hundred Thousand Guaranies to be deposited in Account No. 490 "Ocios Recursos", at the Central Bank of Paraguay, from March 16 of the current year.
Proposals shall be received at the Secretarial Section of the Country Road Department up to 10:00 hours of the May 11, 1993, at the above-mentioned Department.

Credit insurance protest in Canada

By Bernard Simon in Toronto

A GOVERNMENT proposal to allow Canada's Export Development Corporation to enter the domestic credit insurance business has drawn strong protests from British and US-owned insurance companies in Canada.

It is the most contentious part of a draft bill, expected to be introduced in parliament this week.

The EDC, Canada's export finance and credit insurance agency, wants to expand into underwriting domestic credit risks to help it win back export business which it has lost in recent years to private-sector insurers offering both domestic and export coverage.

The corporation has seen some of its highest export accounts move to foreign-owned underwriters, notably subsidiaries of Trade Indemnity of the US, and American International Companies and Continental Insurance of the US.

These companies have expanded aggressively in Canada over the past few years. Trade Indemnity, which set up in Ottawa in 1989, already underwrites about C\$4bn in sales, split roughly equally between domestic and export business. Mr Rick Doyle, its president, says: "If big exporters have found better service and one-stop shopping in the private sector, why should the government come in?"

The private insurers complain that the EDC's status as a government agency gives it many advantages, including tax-free status and the absence of requirements to set up reserves against liabilities. "It would be difficult for us to compete against a company that could basically buy the market," Mr Doyle says.

The EDC declined to comment on the legislation until it is presented. However, it is said to be concerned that the private insurers are "cherry-picking", in other words, taking its biggest and best export insurance customers, and leaving it with the more risky business from mid-sized and small companies.

The new legislation will also expand the EDC's export finance mandate, with a view to making it more competitive with European and Japanese export-finance agencies. The Corporation is expected to become more active in pre-export financing, including the ability to make direct loans against inventory and working capital assets. The EDC will also be empowered to enhance a financing proposal by taking an equity stake in a company or a project, and will be given greater leeway to provide support for leasing machinery and equipment.

Canadian exporters have complained that the EDC's services are increasingly falling behind those offered by other countries' export finance and credit insurance agencies.

China's Gatt talks resume

NEGOTIATIONS on Chinese membership of Gatt resumed yesterday in Geneva, but little progress is expected over the three days of talks following unsuccessful discussions between China and the US earlier this month, writes Frances Williams in Geneva.

Neither the US nor the EC has sent senior negotiators to Geneva, and part of the US team has been delayed by severe weather. China has hoped to rejoin Gatt this year, but US officials now say membership is a long way off.

US withdrawal from trade procurement talks has put Sir Leon on the spot

EC ponders next step in row with US

By Lionel Barber in Brussels

THE EC is studying all options - including retaliation - in response to the likely US decision on March 22 to bar European companies from winning certain federal contracts in telecommunications and power generation, the European Commission said yesterday.

The Commission said Sir Leon Brittan, EC commissioner for external affairs, had yet to choose how to respond to the

Clinton administration's unexpected withdrawal from talks on the procurement dispute due to open yesterday. But in response to threats of sanctions by Mr Mickey Kantor, US trade representative, an EC official said: "We take him at his word."

Mr Kantor's abrupt decision to call off talks has escalated tensions already inflamed by EC-US disagreements on commercial aircraft subsidies, steel subsidies and the stalled Gatt

Uruguay Round. It also has embarrassed Sir Leon, who had claimed that a recent trip to Washington had cemented relations with Mr Kantor.

EC officials admitted yesterday that Mr Kantor had failed to make a courtesy call to Sir Leon ahead of last Friday's announcement. One Brussels official described Mr Kantor as "unpredictable", while others said the unilateral withdrawal amounted to a spur-of-the-moment decision which had

surprised the US negotiating team.

Mr Kantor broke off negotiations after learning that the EC would not waive Article 29 in the EC utilities directive, which gives European companies a 3 per cent price preference over foreign bidders, while also giving favoured treatment to EC bidders offering more than 50 per cent local content.

The EC is ready to waive Article 29, but only if the US

agrees to waive buy-American provisions on federal and state contracts in water, gas, electrical and telecoms contracts.

US demands that the Community waive the clause before yesterday's talks were tantamount to "getting us to walk naked into the negotiating room", the EC said.

Mr Kantor is due to visit Brussels for talks with Sir Leon on March 23, but the latest row had "rewritten the agenda", an EC official said.



Brittan: thorny problem

Rolls joint venture secures big order

By Paul Belts, Aerospace Correspondent

BMW Rolls-Royce, the joint venture formed two years ago, has won its second important order for the BR710 aero-engine it is developing for business and regional jets.

The joint venture's BR710 engine has been chosen by the Canadian Bombardier group to power its Canadair global express business aircraft.

No value has been placed on the deal but Bombardier has won 37 firm orders for its long range twin engine business jet. This could represent about \$75m worth of business.

The aircraft, which can fly 6,500 nautical miles non-stop at a maximum operating altitude of 51,000 ft, is due to make its first flight in 1996 with the first customer deliveries starting late 1997.

BMW Rolls-Royce is developing the BR710 family of engines at a new plant outside Berlin. The joint venture won its first order last September when Gulfstream of the US ordered 200 BR710 engines worth \$500m to power its Gulfstream V corporate jet.

Kantor seeks new rules in the free market game

By Nancy Dunne in Washington

WHEN he cancelled this week's talks with the EC, Mr Mickey Kantor, the US trade representative, was saying that the rules of the game must change.

He would have no patience for the squabbling and last minute handout "solutions" which he believes have produced little gain for American companies in the past.

"Our policy has been that we are for free trade, that we are

for improved market access and a Uruguay Round, while our strategy has been, in any given crisis, to do the minimum necessary to avoid some kind of congressional action. Neither that policy or strategy has accomplished much.

"Marathon trade negotiations are now well into their seventh year. Our trade deficits have begun to rise again. Numerous bilateral problems, particularly with Europe, seem permanently on the table."

This summation by Sen J Rockefeller, a Democrat from

West Virginia, when he testified on Capitol Hill last week, did not evoke disagreement from Mr Kantor. He has said much the same more diplomatically since taking office.

Mr Kantor has repeatedly stated his aim: "Comparably open markets." The "comparably" can be defined unilaterally by the US through sanctions or through real negotiation.

Mr Kantor has also clearly defined his key role as the enforcer of US trade laws. The 1988 Trade Act required the administration to report on the

extent to which foreign governments discriminated against US products and services in government procurement, and to act appropriately to remove the discrimination.

In 1991 Mrs Carla Hills, then the US trade representative, said France, Germany and Italy had discriminated against foreign suppliers of heavy electrical equipment or telecommunications equipment. Consultations were requested and Mrs Hills vowed that, if US concerns were not resolved within 60 days, the president

would implement sanctions to take effect by January 1993.

Two months after that deadline, Mr Kantor is prepared to act. He would also "be pleased to sit down with the EC..." he said.

Meanwhile, he has been taking comments from US companies, most of which support the initial sanctions. There could be a second tranche of if the EC retaliates - a move Mr Kantor said he does not expect.

Most US companies do not recommend the US withdraw from the Gatt procurement

code, a step Mr Kantor is considering. Many believe the US should bring a complaint to Gatt on the grounds the EC utilities directive fails to provide national treatment for US companies.

The EC can be pardoned for its "surprise" at Mr Kantor's impatience. For four years it dealt with a trade representative who believed it to be "a failure" if sanctions went into effect. Mr Kantor has seen the results of past US accommodation. He has not liked what he

Brussels 'open skies' ambitions scotched

By David Gardner in Brussels

EC transport ministers yesterday agreed to co-ordinate more closely the external civil aviation agreements each member state now negotiates bilaterally.

But they scotched European Commission ambitions to negotiate "open skies" deals on behalf of the EC as a bloc, except on a case-by-case basis requiring a prior mandate from the Twelve.

This concession promises to be limited, in the short term at least, and Brussels has not ruled out a legal challenge.

The Commission has long argued for a common external aviation policy to get better access for EC airlines, and prevent a free-for-all inside Europe which might put at risk its own hard-won deregulation of air transport.

But ministers decided member states "shall remain fully responsible for their relations with third countries in the field of aviation unless and until action has been taken by the Council".

The Council based itself on the transport articles of the EC treaty, whereas the Commission maintains that external aviation agreements come under the treaty's commercial clauses, which give Brussels broad competence.

Ministers did agree, however, that the EC should establish common rules on aviation relations with other countries. The Twelve and the Commission will thus set up an experts group to:

- Exchange information on and consult on external negotiations;
- Sort out conflicts of interest between states; and possible infringements of EC law;
- Identify areas of common interest where the Community should negotiate as Twelve.

They also agreed yesterday on common equipment standards for air traffic control. These are aimed at integrating 54 control centres, using 31 incompatible systems and 70 different computer languages, and are part of the reason for Europe's growing reputation for air travel delays.

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Bank of Tokyo (Curaçao) Holding N.V.
U.S. \$30,000,000

Guaranteed Floating Rate Notes due 1993

NOTICE IS HEREBY GIVEN to the holders of U.S. \$30,000,000 Guaranteed Floating Rate Notes due 1993 (the "Notes") of Bank of Tokyo (Curaçao) Holding N.V., a Netherlands Antilles corporation established in Curaçao (the "Company"), that pursuant to Condition 5(b) of the Terms and Conditions of the Notes, the Company has elected to redeem on the next Interest Payment Date falling on April 28, 1993, all the Notes then outstanding at the principal amount thereof.

Payment of the principal amount of each of the Notes will be made on or after April 28, 1993 upon presentation and surrender of the Notes, together with all coupons pertaining thereto, at the principal office of the Bank of Tokyo Trust Company in New York City, 100 Broadway, New York, N.Y. 10005 or at the principal office in the city indicated of any of the following Paying Agents:

The Bank of Tokyo, Ltd., Brussels
The Bank of Tokyo, Ltd., Hong Kong
The Bank of Tokyo, Ltd., London
The Bank of Tokyo, Ltd., Milan
The Bank of Tokyo, Ltd., Paris
The Bank of Tokyo, Ltd., Singapore
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The Bank of Tokyo (Luxembourg) S.A., Luxembourg
Bank of Tokyo (Switzerland) Ltd., Zurich

The coupon for interest payable on April 28, 1993 should be detached and presented for payment in the usual manner. On and after April 28, 1993 interest on the Notes will cease to accrue.

Bank of Tokyo (Curaçao) Holding N.V.
By: The Bank of Tokyo Trust Company, as Fiscal Agent

Dated: March 16, 1993

*ASTRA AND CORSA E-DRIVE AVAILABLE FROM APRIL 1993 ONWARDS. FUEL ECONOMY FIGURES (L/100KM) BASED ON 90 KPH. CONSTANT SPEED. ASTRA 1.6i E-DRIVE: 5.5 L/100KM. ASTRA 1.6i: 6.5 L/100KM. CORSA 1.2i E-DRIVE: 5.5 L/100KM. CORSA 1.2i: 6.5 L/100KM. CORSA 1.6i E-DRIVE: 6.5 L/100KM. CORSA 1.6i: 7.5 L/100KM. CORSA 1.8i E-DRIVE: 7.5 L/100KM. CORSA 1.8i: 8.5 L/100KM. CORSA 2.0i E-DRIVE: 8.5 L/100KM. CORSA 2.0i: 9.5 L/100KM. CORSA 2.5i E-DRIVE: 9.5 L/100KM. CORSA 2.5i: 10.5 L/100KM. CORSA 3.0i E-DRIVE: 10.5 L/100KM. CORSA 3.0i: 11.5 L/100KM. CORSA 3.5i E-DRIVE: 11.5 L/100KM. CORSA 3.5i: 12.5 L/100KM. CORSA 4.0i E-DRIVE: 12.5 L/100KM. CORSA 4.0i: 13.5 L/100KM. CORSA 4.5i E-DRIVE: 13.5 L/100KM. CORSA 4.5i: 14.5 L/100KM. CORSA 5.0i E-DRIVE: 14.5 L/100KM. CORSA 5.0i: 15.5 L/100KM. CORSA 5.5i E-DRIVE: 15.5 L/100KM. CORSA 5.5i: 16.5 L/100KM. CORSA 6.0i E-DRIVE: 16.5 L/100KM. CORSA 6.0i: 17.5 L/100KM. CORSA 6.5i E-DRIVE: 17.5 L/100KM. CORSA 6.5i: 18.5 L/100KM. CORSA 7.0i E-DRIVE: 18.5 L/100KM. 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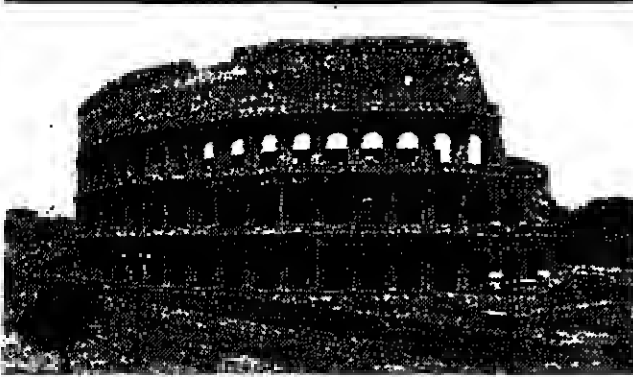
ITALY'S CORRUPTION SCANDAL

The corruption scandal spreading through the top tiers of Italian political and corporate life shows no sign of abating. Public outrage is rising. Demand for fundamental political reform is irresistible, while the cosy business practices which perverted the public tendering process and enriched the construction sector are a thing of the past. Italy's business community is reeling from the arrests of senior executives. International investors are worried. But how badly has the scandal damaged the political establishment in Rome and Italy's business community centred in Milan? Will Italy's always flexible and sometimes free-wheeling corporate culture be indelibly changed?

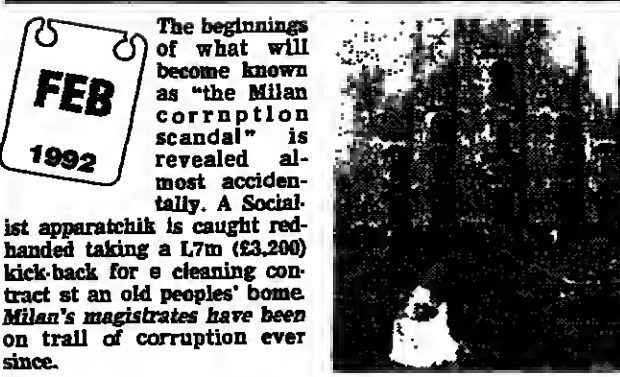
FT writers examine the state of the scandal and look at how it has affected business life in Italy.

A tale from two cities

ROME The wreckage wrought on the body politic



MILAN The sword hanging over the business community



MAY 1992 The affects of the scandal reach the capital. Milan's magistrates ponder whether to ask parliament to waive immunity on the outgoing Socialist minister of tourism and a recently re-elected Socialist deputy who is also the brother-in-law of Bettino Craxi, the long-time leader of the Socialist party and former prime minister. Craxi is widely expected to head the government being formed in the wake of last month's national election stalemate.

JUN 1992 The outgoing minister for public works is served notice by Rome's magistrates that he is under investigation. Craxi agrees to withdraw candidature for prime minister. Giuliano Amato, former Socialist treasury minister and head of the special commission looking into Milan scandal, forms government.

JUL 1992 Chamber of Deputies agrees to waive parliamentary immunity on five MPs. A total of 13 MPs and former ministers are now under investigation by Milan magistrates. Nine more are being investigated in other parts of the country.

DEC 1992 Craxi is told he is under investigation by Milan magistrates. Parliament agrees to waive immunity of Socialist deputy leader and former foreign minister so that Venice magistrates can investigate allegations against him. Socialist party executive postpones decision on Craxi's leadership.

JAN 1993 Craxi served with second notice by Milan magistrates, who ask parliament to waive his immunity. Rome magistrates investigate purchase by Treasury of buildings in Rome. Forty-four people, including senior civil servants and a former treasury director-general, are charged. Police raid offices of Socialists.

FEB 1993 Claudio Martelli, Socialist justice minister, resigns after being told he is under investigation in Milan. The number of separate investigation notices to Craxi increases to six. Craxi resigns as party leader after 16 years in the job. Gabriele Cagliari, president of Eni, told by Rome magistrates he is under investigation. Two under-secretaries in Budget and Interior ministries are warned. Prominent figures in parties other than Socialists are increasingly involved in investigations. Health minister Francesco De Lorenzo resigns after deputies vote to remove immunity. Finance minister Giovanni Goria resigns. Although not under recent judicial investigation, he has been embroiled in another long-running investigation. Tansion rises as magistrates in Rome, Milan and other cities order a wave of arrests. Republican party leader Giorgio La Malfa resigns immediately after being informed he is under investigation. More than 50 deputies and senators are now caught up in the various investigations.

MAR 1993 A hitlarto obscure television programme presenting court cases becomes mass viewing. Craxi says magistrates are in co-ordinated plan to decapitate Socialist influence. Amato's four-party coalition agrees on legislation that would transfer the investigation of illegal political funding from magistrates to politically appointed regional prefects. There is public uproar, Milan magistrates object. Environment minister Carlo Ripa di Meana resigns in protest, and President Oscar Luigi Scalfaro refuses to sign the government's decree that would open way for a political solution. Amato wins backing of coalition parties after turbulent parliamentary debate, but widespread protest continues. Amato leaves proposed legislation with a divided parliament. More than 1,000 senior politicians and businessmen are now under investigation, but this is likely to prove to be only the tip of the iceberg.

MAY 1992 The scandal enters its third month with the charging of two leading figures in the construction industry. Six other prominent people in the industry have already been charged. Most notably, Enzo Papi, managing director of Fiat's big building subsidiary, is detained. In all, 26 businessmen, municipal officials and local politicians have now been arrested.

JUN 1992 Number of accused prominent businessmen and politicians rises to more than 40. Police announce that a prominent Socialist killed himself after going to see investigators.

JUL 1992 Salvatore Ligresti, the king of construction in Milan and one of Italy's richest men, is arrested. Seventy-six local and national politicians have been either charged or are under investigation.

DEC 1992 The lira, already buffeted by turmoil in the ERM, for the first time comes under pressure because of Italy's political uncertainty.

JAN 1993 Magistrates announce that Paolo Berlusconi, the younger brother of media magnate Silvio Berlusconi, will be put on trial. He is latest of 35 businessmen and politicians who magistrates say will go to trial. Magistrates widen investigations to include reorganisation of chemicals industry in 1990. Under investigation are Eni, the state oil concern, the Ferruzzi Group's Montedison, and Anas, the state road building authority. The number of persons arrested since the beginning of the scandal passes 100.

FEB 1993 Financial markets are rattled by fears of political chaos. Heavy selling of shares, and the lira slides. Intervention restores calm to markets. A total of 105 businessmen, politicians and civil servants are said to have confessed to taking part in a system whereby public contracts were awarded on the basis of illicit payments to fund party organisations. Latest line of investigation centres on the electricity generating industry. More arrests, increasingly involving prominent business figures. Two top Fiat executives are arrested in their Turin homes, one of whom is the group's chief financial officer. Magistrates announce that Reul Gerdin, former head of Ferruzzi-Montedison, is under investigation.

MAR 1993 Italy's credit ratings begin to be affected. Standard & Poor's announces downgrading after Moody's places the country's debt under review. Gabriele Cagliari, president of Eni, arrested. Share prices fall, and Bank of Italy forced to support lira. Calm restored to markets. Chairmen of four big Eni subsidiaries arrested, and police raid group's operating headquarters.

Magistrates hold key to unlocking of Tangentopoli

They will set the investigation agenda, writes Robert Graham

OVER the weekend the Italian media felt obliged to comment on a non-event. No new arrests had been carried in any of the country's ever more numerous corruption scandals which centre on the illicit funding of political parties through bribes on contracts.

Such arrests have become such a part of the fabric of daily life that it is indeed an occasion when nothing happens. But this is only a pause.

The anti-corruption drive has gone too far to be halted easily and is now attacking the heart of the post-war politico-economic system. The traditional balance of power has altered and the politicians no longer control the judiciary; or rather that part of the judiciary which matters, the investigating magistrates.

A weak government and a fractious parliament have tried, and failed, to impose a political solution which would limit the scope and consequences of the corruption investigations. As a result the magistrates, particularly those in Milan, are setting the agenda. The speed and scope of the investigations will be determined for the foreseeable future by the ability and willingness of the magistrates to proceed. The public is firmly behind them. Anger is rising as proof accumulates of what has been little short of the rape of the state during the last two decades.

The need for a political solution, which prime minister Giuliano Amato began to explore last month, was and remains real. If Italy's system has been so permeated by corruption, the very institutions of democracy risk being weakened if the judicial surgery is too abrupt and all-embracing.

Secondly, there is the issue of how guilt is apportioned in a system that is so thoroughly corrupt, and whether individuals are to be punished or whether society as a whole should be blamed for allowing the situation to develop. Finally, the sheer volume of work both at the investigative, prosecution and then appeal stage threatens to bring an already torpid and bureaucratic judicial system to a standstill.

Italy cannot afford to have the corruption scandals carried through the courts for the next six to 10 years without political instability and serious economic dis-

ruption. Already, Italian companies are worried about their image abroad.

It is now clear that the scope for investigation is limitless. What started out a year ago with Milan being dubbed *Tangentopoli* (literally bribe city) has become *Tangentopoli* (bribe cities).

Large and small cities alike have seen their favourite sons either indicted or reputations ruined. Milan, Naples, Turin and Rome - the four biggest cities - are without political guidance as the ruling coalitions have been decimated by a combination of arrests and alliances broken in the fall-out from corruption scandals.

In northern and central Italy the political elite is on the retreat, if not disappearing. Political control of the public sector, through state companies and thousands of municipally owned entities, which has been the central element in the corrupting process, has been undermined. To some extent all the major state concerns are involved - Iri, the state holding company; Enel, the electricity authority; Efim, the industrial holding company in liquidation; Eni, the state energy company and Anas, the roads authority.

The enormous bounty of power station contracts in Enel's patronage is emerging as a key source of bribes paid by contractors to the political parties. But Eni is rapidly becoming the centre of attention. Last week, Mr Gabriele Cagliari, the Eni chairman, along with the heads of the company's four major subsidiaries, was arrested on charges of illicit party funding and falsifying accounts.

Magistrates are investigating three main areas of Eni activity:

- The involvement of Eni with Banco Ambrosiano prior to the latter's collapse in 1982, and the payment into a Swiss bank account of money for the Socialists;
- The reorganisation of the chemicals industry with Ferruzzi's Montedison in 1989-90;
- The use of Eni's subsidiaries in providing funds to parties based on foreign contracts (such as gas supplies from Algeria) and the profits derived from dealing in oil and other hydrocarbon commodities through Swiss associates.

All these promise explosive revelations

concerning the scale of money taken by individuals and the parties through manipulation of state companies, as well as exposing the "Swiss connection" in Italian business dealings. The issue of individual enrichment in taking kickbacks has not been touched. At least 30 per cent of the 15,000bn (£2.2bn) - 15,000bn believed to have been taken annually in "commissions" went not to political parties but to individuals in kind or cash. Milan magistrates have left this issue to one side.

Other areas which have yet to fall within the magistrates' net include government investment and procurement for the railways, which is planning massive investment in a high-speed train network, and the defence sector. The civil service itself is only just beginning to be touched with investigations into public works, overseas aid controlled by the Foreign Ministry and export credit guarantees.

Equally, the investigations remain essentially a phenomenon of north and central Italy. This is because the grip of the Christian Democrats and Socialists remains strongest in the south and the judiciary there is more susceptible to political pressure. In the south, too, the thrust of magistrates' energy tends to be directed at organised crime.

The party most visibly affected has been the Socialists, but smaller parties have also suffered.

The only parties to emerge with a clean sheet so far are the communist splinter group, Reconstructed Communism, La Rete (The Network), the Sicily-based reform movement, the neo-fascist MSI and the Lombard League, whose rise to power derives precisely from its opposition to the corrupt old system in the north.

These are stridently calling for the corrupt to be punished and are likely to be the main beneficiaries if elections were to be held under the present system of proportional representation. Yet even they recognise that the old system is unworkable in the long term. Only a new parliament elected on a fresh set of electoral regulations is likely to have the moral authority to deal with the issues raised by *Tangentopoli*.

Politicians start feeling downside of family ties

By Robert Graham

THE CLOSE-KNIT nature of the Italian family is proving to have some disadvantages as the reputations of politicians and businessmen become damaged by close relatives caught up in the scandals.

Take the case of Mr Francesco de Lorenzo, a member of the Liberal party who resigned on February 19 as minister of health. That morning his 89-year-old father, Ferruccio, had been arrested on allegations that he received an illegal commission of £1.7bn (£241,000) for a series of property deals. Mr de Lorenzo owed his political career to contacts of his father in his political fielding of Naples.

His father, a prominent Naples doctor, has been three times a parliamentary deputy, a former under-secretary of health and for years head of the national medical association. The allegations of corruption centred on the property purchases for the doctors' health insurance association which Ferruccio de Lorenzo headed.

Although resignation is rare in Italian politics, Francesco de Lorenzo, as minister in charge of the medical profession, was left with little alternative.

The activities of Mr Michele de Mita forced his well-known elder brother, Ciriacio, to resign from his key post as head of the joint parliamentary constitutional reform commission on March 2. This followed Michele's arrest in connection with an alleged foodstuffs fraud linked to the 1980 earthquake at Irpinia, southern Italy.

Ciriacio, a former Christian Democrat prime minister and heavyweight on the left of the party, is the local potentate around Avellino, one of the areas most affected by the earthquake and where misuse

of disaster relief funds has been most recently felt.

Others have been more fortunate in limiting the damage caused by the involvement of some family members with the law. Mr Bruno Tronchetti Provera, head of Mariani, a company involved in a consortium setting up a gas distribution network in Milan, was arrested for allegedly paying a bribe of £1.6bn (£287,000) to a Republican party politician. Although Bruno is brother of Marco, chief executive of Pirelli, and although Mariani is linked by shareholdings to the tyre group, the two have managed to stay separate.

On the other hand the higher public profile of Mr Silvio Berlusconi, the media magnate, has also brought his links with the Socialists under scrutiny, and he has had to make very clear that his financial interests are no longer involved in Milan property dealings.

Mr Craxi, who risks losing parliamentary immunity to face charges of alleged corruption, never ceases to castigate the press and the magistrature for singling out his family for vilification.

According to Mr Mario Chiesa, a Socialist party functionary and the first person caught in the scandal and to confess to Milan magistrates, he helped "Bobo" (Bettino's son) into politics using funds illicitly collected from contract kickbacks. "Bobo" has now withdrawn from politics.

Stefania, Bettino's daughter, has been portrayed by the press as unfairly benefiting from her father's influence and the Socialists' control of the second state television channel to set up a TV production company.

Mr Craxi is also foisted with the plight of his brother-in-law, Mr Paolo Pillitteri, former mayor of Milan, who faces charges of illicit party financing.

By Robert Graham in Rome

FROM confessions of businessmen, politicians and civil servants it has become clear that virtually all transactions from the mid-1980s onwards in the public sector were subject to bribes and commissions. This was also true of a considerable slice of private construction activity, as well as supply contracts.

How much was cranked off in bribes and illicit commissions each year? How much did this cost the economy?

Total public spending in 1992 was £135,000bn (£59bn), £70,000bn (£30bn) on the purchase of goods and services and £65,000bn (£28bn) in investments.

According to confessions to the investigating magistrates, supply contracts routinely carried a commission of between 5 and 10 per cent.

Public works contracts, which totalled £30,000bn, carried a 3 per cent commission. But this rose to 4 per cent in the case of private treaty deals with Anas, the roads authority (which accounted for 10 per cent of public works contracts).

Building permits and property development permissions carried a commission of 5-8 per cent of the value of the project. The construction industry had a turnover of £156,000bn in 1992.

On a crude median of 5 per cent for both supply and investment projects, and total public spending of £135,000bn in 1992 - then £6,750bn (£3bn) was paid out last year in bribes. If this is reduced because some expenditure reflects projects on which commissions have already been paid, then the figure could be cut to a minimum of £5,000bn (£2.2bn).

But this figure only includes public sector spending. Public works contracts represent a mere 20 per cent of the con-

struction industry's annual turnover of £156,000bn.

When building permits and permissions for property developments are factored in, it would not be unreasonable to put a figure of around £6,000bn (£2.6bn) per year being creamed off.

How much of this went into private pockets and how much to the political parties is hard to tell.

According to those who have confessed to the magistrates, at least 30-40 per cent of total bribes paid went directly to personal enrichment - much more in the case of the private construction sector and the granting of building permits.

It is also difficult to distinguish between benefits in kind which have been connected to party work - free travel, gifts, apartments, telephones, etc - and direct self-enrichment.

The cost to the economy has to be measured partly by:

- the extent to which contract values are increased to absorb the bribes/commissions;
- the increased cost of contracts due to the absence of competition. Ministry officials say public works contracts could well have been inflated by 15 per cent or more.

There is also the hidden cost of high public spending, reflected in the public sector deficit equivalent to almost 11 per cent of gross domestic product and the expense of both borrowing and servicing Italy's huge national debt, equivalent to about 107 per cent of GDP.

This latter element is extremely important if at the beginning of the 1990s corruption had a silver lining, in that it encouraged greater private consumption expenditure and even investment into the economy, by the end of the 1980s the accumulated impact was simply to fuel ever-higher public spending, thus substantially raising the national debt.

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DON'T TRAVEL WITHOUT US.

Foreign competitors may win the ultimate kickback

Scandal threatens to count against Italian companies seeking public sector deals at home and abroad, writes Haig Simonian

BUSINESS as usual is the motto at most Italian companies, whether the minority tainted by arrests and allegations of paying kickbacks or the vast majority so far unaffected.

However, the unwinding scandal has not gone unnoticed by Italy's exporters or the thousands of foreign companies operating subsidiaries in the country.

Leading exporters largely brush off the effects of the scandal on their businesses, describing the affair as being limited to domestic public-sector contracts. However, there are already signs that their foreign competitors may be trying to turn matters to their advantage.

So far, there have been no examples of big contracts being lost. However, with other European markets in recession and competition in many of the industrial sectors in which Italians specialise growing ever more cut-throat, it may not be long before an important deal slips through a company's fingers because of the impact of the scandal.

Some state-owned companies may already be feeling the impact. Italstrada, the big civil engineering arm of the Iri state holding company, believes it may have lost its chances of winning a tunnelling contract for London Underground's Jubilee line extension because of financial

problems at its parent and adverse publicity.

The company, which is part of Iri's loss-making Iritecna building and general contracting subsidiary, has already signed a letter of intent to build a tunnel under the Thames for a section of the new line. But hopes to construct a further part from London Bridge Station appear to be receding after requests for more information and guarantees about the position of the parent company.

Mr Eberhard von Koeber, the deputy chairman of the multinational ABB engineering group, who is also responsible at board level for the Italian market, has had

ample reason to get to know the Italian market. ABB is believed to be interested in both the big state-owned engineering groups on the privatisation list - Nuovo Pignone, the turbines and compressors subsidiary of the Eni energy and chemicals concern and Breda Costruzioni Ferroviarie, the railway equipment group owned by the Eni state holding company, now in voluntary liquidation.

Mr Von Koeber was blunt: "... The Italian managers with whom I met to discuss [privatisation] are either in jail, disappear at night, or have been fired. That would be inconceivable in Germany."

Last week, Mr Franco Ciatti, Nuovo Pignone's chairman, was arrested on allegations linked to the corruption scandal. So far, the investigations have not touched BCF.

But ABB itself has been caught up in the net. Earlier this year, Mr Umberto di Capua, head of its big Italian subsidiary, was arrested and briefly detained in San Vittore prison on allegations of kickbacks linked to orders for Milan's new third metro line. The allegations followed the interrogation last year of Mr Ivo Brasilia, another ABB executive.

"We all knew that in Italy, things tended to be done differently than in other coun-

tries," said Mr Von Koeber. "But if there's a strong state role in the economy and legislation which is not very clear on financing parties, it's possible to arrive at the sort of situation which is now being dismantled."

Italian exporters have had a strong reputation for innovation, technical expertise and a strong commercial sense. Of late their competitive edge has been sharpened by the devaluation of the lira against most major currencies. But with stiff competition in the markets, few should be surprised if their foreign competitors start benefiting as the domestic corruption scandal rumbles on.

Privatisation candidates in the spotlight

By Haig Simonian

ITALY'S ambitious privatisation programme avoided the taint of the growing scandals until last week, when a series of raids by Milan magistrates against subsidiaries of Eni, the state energy and chemicals group, brought prime candidates for privatisation directly under the scandal spotlight.

Last Monday Mr Franco Ciatti, chairman of the Nuovo Pignone turbines subsidiary of Eni, was arrested on corruption charges, along with Mr Gabriele Cagliari, Eni's chairman, who was also accused of illegal funding of political parties.

On Wednesday night, Mr Raffaele Santoro, Mr Pio Pignone and Mr Giovanni dell'Orto, chairman of Eni's Agip petroleum, Snam gas distribution and Saipem exploration subsidiaries respectively, were detained on charges of illegal party funding and falsifying company accounts.

Nuovo Pignone is one of the most prominent candidates for privatisation, while both Agip and Snam had been hoping to float part of their capital under a long-heralded scheme to bring in private shareholders.

The latest developments will complicate a privatisation programme which had already

needed to pave the way for a self-off.

There are convincing reasons for the delays in bringing other transactions to fruition. For example, it is believed that Merrill Lynch, the US investment bank sounding out buyers for Credito Italiano, has failed to find a suitable candidate.

Its remit has been complicated by the likely L5,000bn (£2.7bn) price tag for the 87 per cent stake held by the Iri state holding company and the public tender offer that would subsequently be required under new bourse laws for the remaining shares floating on the stock market.

The sale has also been stymied by poor timing for the government. Efforts to dispose of the well-regarded bank have been complicated by the forthcoming sale of Banca Commerciale Italiana, one of Italy's most prestigious financial institutions. Many buyers, especially the consortia of domestic financial and insurance interests seen as the most likely candidates, are waiting for EC to come on the block.

The outlook for selling the big Treasury-owned IMI investment banking and insurance concern, to a group of savings banks, led by Milan's Cariplo, remains unclear as the long-running saga, now well into its second year, rolls on.

Nuovo Pignone should have been relatively easy to sell, given its strong reputation for turbines and compressors. However, Mr Ciatti's arrest and the fact that much of its business comes from Eni complicates assessments of its value and saleability. The works council at Nuovo Pignone's Florence headquarters this week called for privatisation to be suspended.

Plans to float Agip and Snam have also been tainted by the corruption scandal. The latest setback comes on top of existing differences in the government over Eni. While some officials want the flotations, probably involving 10-20 per cent of the shares in each subsidiary, to go ahead quickly, others are still pressing for a flotation of Eni itself.

The latest wave of arrests at the group could, surprisingly, speed that process. While the next few months are likely to be turbulent, the call for a "fresh start" - probably linked to privatisation - could prove irresistible. The blow to some of the group's most powerful subsidiaries, which were previously stressing their independence, may strengthen the hand of those calling for flotation of the group, rather than its subsidiaries.

The Iri insurance group represents one of the government's most attractive candidates. Yet an embarrassing and highly public difference of opinion between the group's chairman and managing director over its restructuring means plans to privatise the company could still be delayed.

Setbacks to the government's timetable mean some smaller privatisations may jump the queue. Prominently placed until last week's arrests were Eni's Savio textile machinery operation and the Agip Coal natural resources operation. However, both transactions may now be held up.

Progress may also be forthcoming in disposing of some of the more attractive assets of the Eni state holding company, now in voluntary liquidation. Formal bids for Eni's big Siv glass subsidiary are expected to be invited later this month.

There has also been considerable behind-the-scenes activity among potential buyers for Eni's Breda Costruzioni Ferroviarie railway equipment maker. In both cases, however, the proceeds will be little more than a drop in the ocean of the government's overall privatisation targets, given the modest financial performance of the two companies.

Swiss tired of being Europe's laundrymen

By Ian Rodger in Zurich

IT SEEMS that whenever there is an Italian scandal, there is a Swiss connection.

From the Chiasso affair in the late 1970s through to the Tangentopoli affair that is now shaking Italy's entire political system, Swiss banks always appear in a prominent, if rather sleazy, role.

Last week yet another connection emerged when Mr Pierfrancesco Pacini Battaglia was named as one of the main intermediaries funneling kickbacks from Eni, the Italian state energy group, to political parties.

Mr Pacini Battaglia, now under arrest, apparently managed his funds through a small Geneva private bank called Banque Karfano, of which he is a director.

Now, however, there are signs that not only the Italians, but also the Swiss, are tiring of what has been a mutually convenient arrangement for decades.

Last weekend, police in the Italian-speaking canton of Ticino confirmed that Mrs Carla Del Ponte, the chief prosecutor, has been receiving special protection for several months. She has been particularly vigorous in investigating Mafia cases.

Later this year, the Swiss federal government plans to pass a package of tough penal law reforms aimed at preventing criminals everywhere from using Swiss banks.

And leaders of the Swiss financial community are urging the authorities to accelerate appeal procedures behind which suspects have been able to hide for years.

"The appeal process is too complicated. It is not in our interest to slow down the process," Mrs Gertrud Erismann of Union Bank of Switzerland says.

UBS is the other Swiss bank that has been publicly linked so far with the political corruption scandals in Italy. Mr Silvano Larini, a close associate of Mr Bettino Craxi, the former Italian prime minister, opened the so-called "Protezione" account at UBS's Lugano branch in 1979.

Over the subsequent two years, Mr Roberto Calvi, then president of Banco Ambrosiano, paid \$7m (£4.9m) into it, and it is alleged that Mr Craxi and Mr Claudio Martelli, the former justice minister, subsequently had access to the account.

UBS was embarrassed by demands from the Geneva police last autumn for information on the account, which were accompanied by an insistence that the client not be informed. UBS felt obliged to appeal on behalf of the client, even though it did not want to hinder the investigation. Geneva police have since allowed the client to be informed and UBS has withdrawn from the appeal.

Switzerland was slow in responding to changing international attitudes to dirty money. In the early 1980s, Bern



enraged US authorities by being less than helpful in US demands for help in a few insider trading investigations.

In the late 1980s, the country came to be seen as a main centre for drug money laundering, especially by the Italian Mafia. A 1989 federal parliamentary commission accused the public prosecutor of laxity in pursuing narcotics investigations, and a book with the cheeky title Switzerland Washes Whiter became a best seller.

As so often though, once the Swiss decided to act, they moved quickly and effectively. In August 1990, amendments to the penal code were passed

making it an offence for a Swiss banker knowingly to accept money that had been made from criminal activities.

The Swiss Federal Banking Commission backed up the new laws by making clear that it would regard the acceptance of dirty money through negligence as a possible contravention of the banking law's stipulation that the conduct of business be above reproach. Also, banks were henceforth obliged to know the real beneficial owners of their accounts.

This tightening has already had a significant impact. According to one leading Lugano banker, any Italian

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who reveals that he comes from southern Italy stands little chance of opening an account in Switzerland these days.

However, it does have weaknesses. Swiss bankers point out, for example, that many of the individuals being named in the current Italian scandal would have been welcomed as clients because of their high standing.

Now a second reform package is on the way. Justice ministry officials say it will make membership in a criminal organisation an offence. This is particularly significant with respect to the Mafia and the P2 Masonic Lodge.

Switzerland has treaties of mutual assistance on criminal cases with most countries, including Italy. However, the Swiss will only co-operate with a foreign government if the crime being pursued is also a crime in Switzerland. Thus, it will become easier for the Italian authorities to pursue Mafia and P2 cases in Switzerland.

The new law will also give Swiss bankers the right, if they are suspicious of a client, to tell the police without risking prosecution for violating bank secrecy. This will bring an end to the potential for conflicts of interest that tormented bankers after the 1990 reforms.

The Justice department also intends to set up a specialised office for dealing with organised crime and to establish liaison officers abroad, notably in Washington and at Lyons, the headquarters of Interpol.

All this does not mean that Swiss banks are going out of the financial haven business. For Italians, or anyone else, seeking to avoid tax, it is business as usual. Tax evasion is not a criminal offence in Switzerland.

Matters have been exacerbated by differences within the government over privatisation

received a cool response from potential buyers. Recession and unattractive strings attached to some of the highest privatisation candidates mostly explain the lack of enthusiasm.

But matters have been exacerbated by differences within the government over privatisation. Last month for example, Prime Minister Giuliano Amato tried to push aside Mr Giuseppe Guarino, his industry minister, who had become a substantial obstacle to privatisation.

Mr Guarino's refusal to resign his portfolio in favour of Mr Paolo Baratta, who was later appointed privatisation supremo, highlighted the continuing strength of the political opposition to piecemeal sell-offs. Ministers hope the transfer of responsibilities for privatisation from the industry ministry will help get the programme off the ground.

Only a handful of transactions have been concluded since the government made privatisation one of its priorities after taking office last year. And the deals which have been completed are small in scale compared with those still to be sold.

Still pending are the disposals of Credito Italiano, Italy's sixth biggest bank, and Nuovo Pignone, both of which were announced in September. Another big privatisation yet to be concluded is that of the food production side of the SME foods, retailing and catering group, and the planned flotation of an initial stake in the Iri insurance group.

SME should be the easiest to sell. The disposal of its food manufacturing activities - and possibly its supermarkets and catering business at a later stage - was advertised this month, and the deal should cause few problems.

But it could still go awry if opponents of the sale try to use the courts to block the complex division of the group into the three or four separate companies essential to the disposals.

Moreover, SME's Naples headquarters are occupied by dissident workers opposing the proposed break-up. They have prevented the retrieval of important documentation

Philosophical investors push up share prices despite probes Debt mountain still unclimbed amid turmoil

By Haig Simonian

UNDETERRED by the almost daily spectacle of new boardroom-level arrivals into Milan's decrepit San Vittore prison on corruption allegations, Italian shares have risen by about 14 per cent this year.

The resilience of equities to the revelations now involving most leading companies suggests that most investors are unconcerned by the arrests. Rather than tumbling with each new leak about kickbacks on contracts, the capitalisation of most companies has surged in 1993.

The reasons lie in expectations of lower interest rates, the benefits of a cheaper lira for exporters and last summer's deal between unions and employers to end the semi-mobile wage indexation system. Concern about corruption has so far been contained to a handful of cases.

The pace of the rises also reflects many investors' underlying positions in Italian stocks. Once sentiment began to shift last month, topping up depleted portfolios created a bandwagon effect. "Once the ball started rolling, most investors had to start buying not to miss the market's performance, even if they had doubts about the fundamentals," says one analyst.

Concern about individual arrests has been brushed aside in the context of broader corporate prospects. "Institutional investors understand that the companies are still in business. Arresting Mr Francesco Paolo Mattioli, Fiat's chief financial officer, doesn't mean it has stopped making cars. The question is whether the new Uno will be a good car, not whether a given executive is in jail," says Mr Gianluca Codagnone, an analyst at Milan brokers Aloisia, Foglia, Ventura.

Fiat's share price has climbed steadily this year, reaching L5,560 yesterday. That compares with L4,610 on February 17 last year, when Mr Mario Chiesa, the Socialist administrator whose testi-

mony triggered the investigations, was arrested.

Yet the general rise in prices on the bourse masks differing sectoral performances. Construction, most affected by the scandals, has been hit hardest. Shares in Fiat's Cogefar-Imipresit building subsidiary have dropped to L2,730 from L3,445 when Mr Chiesa was arrested.

Last May, Mr Enzo Papi, the group's former managing director, spent 55 days in San Vittore under interrogation by magistrates.

The virtual freeze in public works contracts has continued to dampen the sector's performance.

The problems in the building sector have spilled over into related industries. Italimpianti, the holding company for Mr Gianpiero Pessenti, the industrialist detained last month and now freed, have sunk to L40,000 from L64,200 when Mr Chiesa was arrested last year. Italimpianti's main subsidiary is Italcementi, Italy's highest cement group. Like other cement and building materials concerns, it has been hurt by the building slowdown and problems at Ciments Français, the French cement maker it bought last year.

Companies dominated by single individuals embroiled in the investigations have also suffered disproportionately. Shares in the Filippo Fochi plant engineering group tumbled on the arrest of Mr

Roberto Fochi, its chairman and managing director. His subsequent release from jail, combined with a big Iranian contract, was greeted by a marked recovery in the stock price.

Sometimes negative factors have coincided, triggering particularly sharp falls. The Premafin group of Mr Salvatore Ligresti, the Milan property magnate arrested on corruption charges last year, stands out.

Shares in Mr Ligresti's Grassetto building concern have tumbled by more than half since Mr Chiesa's arrest. Premafin's share price fall has been even more dramatic, reflecting the role of Mr Ligresti in the group. Premafin's shares have plummeted to L5,500 from L11,075 in mid-February 1992.

Shares have also fallen in a handful of cases where investors believe companies may face one-off costs as a result of the investigations. Ferruzzi Finanzaria, one of Italy's biggest private-sector holding companies, and Montedison, its big chemicals and agro-industrial arm, both saw their shares slide when magistrates turned their attention to the ill-fated Enimont chemicals joint venture.

Enimont was wound up in late 1990 when the state-owned Eni energy and chemicals group bought out Montedison's 40 per cent stake. The L2,800bn price paid is now under examination, amid allegations of deliberate over-valuation linked to kickbacks to political parties.

The Enimont inquiries have already involved some of Italy's best-known entrepreneurs. Mr Raul Gardini, chairman of Montedison's parent company at the time, and Mr Sergio Cragnoletti, former Ferruzzi executive who used to be Enimont's managing director, have been told by magistrates they are under investigation.

In spite of the uncertainty created by the investigations, many analysts believe the corruption scandal will eventually help Italian companies. "It will eventually be much easier for the market to judge companies on their skills and competitiveness, rather than the quality of their political contacts," says Mr Codagnone.

The demise of contracting through private tenders, which paved the way for many of the inflated public-sector deals now under investigation, may even help some state groups facing heavy investment programmes.

One analyst points out that at least part of a contract - the part which might have represented kickbacks - would not now have to be paid.

Most of his colleagues fear the close scrutiny likely to be given to big contracts may slow decision-making.

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However, they agree the greater transparency that should ensue will cut costs and improve efficiency in the end.

THE URGENT economic problems facing Italy are being attributed to one side as a result of the political turmoil.

The greatest burden is the extremely high level of government debt. Italy's debt mountain currently accounts for around 107 per cent of the country's gross domestic product, and the government's deficit forecast of L155,000bn (£87.6bn) in 1993 is believed to be on the conservative estimate.

Even if the referendum on electoral reform on April 18 paves the way for a more stable government, the reform process is likely to take several months. Meanwhile, hopes generated by the deficit reduction package agreed last autumn have faded, as the political storm clouds have cast doubt over its implementation.

Italy is trapped in a vicious circle: its problem is not only the size of its debt, but the enormous burden of interest payments, due to high interest rates.

Unlike the UK, Italy has not benefited from withdrawal from the European exchange rate mechanism by cutting interest rates because, without high interest rates, it will not be able to fund its government deficit. However, unless interest rates fall, servicing of the public debt will continue to eat up a large part of government revenues.

"If you took away the cost of servicing the debt mountain, Italy would actually be running a surplus," said Mr Andrew Roberts, Italian bond analyst at UBS Phillips & Drew.

In 1990 10-year Italian government bonds yielded 4 percentage points more than German government bonds, the same margin as existed between the inflation rates of both economies, so real returns were comparable. Currently,

10-year Italian bonds are yielding 12.85 per cent gross, 6.3 percentage points more than comparable German bond yields, despite the fact that inflation in Germany and Italy is now running at the same rate.

As a result of the political turmoil, Italian bonds have largely failed to benefit from the recent rally in European bond prices, even underperforming bond markets such as Spain, which is also suffering from economic problems.

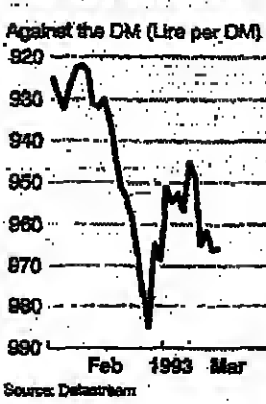
"If interest rates were close to where they are in Germany, that would cut the total deficit of L160,000bn by about 50 per cent," estimates Mr Steve Major, a bond analyst at Credit Lyonnais Securities. "A 1 per cent cut in interest rates is worth about L15,000bn a year, while 1 per cent economic growth is worth about L10,000bn."

Of course, while interest rates remain high, the prospects of economy recovery will also be depressed.

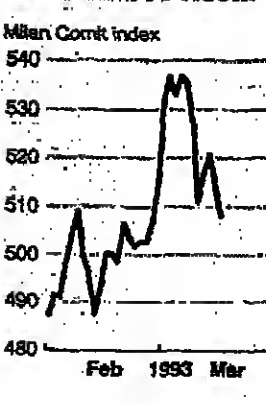
Italy's debt financing costs have been increased further by the fall in its credit ratings from the top level of triple-A to double-A minus by Standard & Poor's and double-A 3 by Moody's, which is considering a further downgrade. Although these ratings apply only to the country's foreign currency debt, the impact of repeated downgrades has helped push up Italy's financing costs across the board.

Even though the cost of foreign borrowing has increased, the Italian government is likely to continue to borrow in foreign currencies, with lower interest rates, when such financing is available. Most recently, Italy raised DM5bn (£2.1bn) in the Eurobond market. However, the appetite of international investors for Italian paper will remain limited during the political upheaval. Meanwhile, a recent Ecu8bn (£6.6bn) loan by the European Community provides little more than temporary respite.

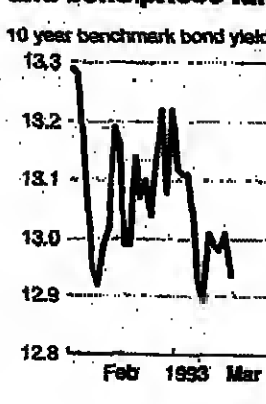
The Lira seesaws...



while shares rise...



and bond prices fall



NEWS: THE AMERICAS

Amnesty plan for Salvadoran abuses

By Damien Fraser in Mexico City and Michael Littlejohns at the UN in New York

EL SALVADOR'S President Alfredo Cristiani has proposed an amnesty for active and former high-ranking military officers blamed by a United Nations report for some of the worst atrocities of the country's 10-year civil war.

The report, released yesterday, cites "substantial proof" that General Rene Emilio Ponce, who resigned as defence minister on Friday, and four other military officers ordered the killing of six Jesuit priests in 1980. It says the late Mr Roberto D'Aubuisson, extreme right-wing leader of the Arena party, ordered the murder of Archbishop Oscar Romero in 1980. The US-trained Atlacatl battalion was held responsible for the massacre of a thousand

civilians at El Mozote in 1981. The murders, assassinations and other human rights abuses were committed during a civil war that pitted the US-backed army and civilian government against left-wing guerrillas.

The US gave the army and government around \$60m in aid during the 1980s, despite accusations by human rights observers that the Salvadoran military was guilty of the crimes now described in the report.

The two sides reached a peace agreement last year, with the Salvadoran government agreeing to give the rebels land, purge the military, and reform the police and judiciary, and set up a commission to investigate the worst acts of violence.

The UN report was written by Mr Belisario Betancur, former Colombian president, Mr

Reynald Figueredo, former Venezuelan foreign minister, and US jurist Mr Thomas Burghal.

They also accuse leaders of the rebel Farabundo Martí National Liberation Front of killing and kidnapping civilians, mayors of cities under government control, dissidents in the rebel movement, judges and US military personnel.

The commission urged that those named in the report be barred from public office for 10 years, and be prohibited from ever holding military or security responsibility. It called for a special investigation into the death squads that killed tens of thousands of Salvadorans in the 1980s, believing that they continue to be a "potential menace".

According to the commission Gen Ponce, Gen Juan Orlando Zepeda, deputy defence minis-



Former defence chief Rene Emilio Ponce (right) is among military officers accused of atrocities

ter, and Gen Juan Rafael Bustillo, former air force commander, met on the eve of the murder of the six Jesuits, their housekeeper and her daughter, and ordered Colonel Guillermo Benavides to have them killed "without any witnesses". Col

Benavides was convicted of the Jesuits' murder, and is serving a 30-year prison sentence.

At a ceremony in New York to release the report, Mr Boutros Boutros Ghali, the UN secretary general, appeared to offer some support to Mr Cris-

tiani's amnesty proposal.

Observing that the country had made great strides, but that peace-building was far from over, Mr Boutros Ghali said Mr Cristiani deserved the international community's encouragements in his efforts.

Winter storms kill over 100 in eastern US

By Nikki Tall in New York and Laurie Morse in Chicago

BUSINESSSES, commuters and home-owners along the eastern US seaboard struggled to return to normalcy yesterday after a winter storm left a trail of devastation in its wake and cost up to 115 lives.

In Florida, hard-hit by Hurricane Andrew last August, the storm system spawned about 50 tornadoes; in the New Jersey, Connecticut and New York state region around 300,000 homes were left without electricity and snow accumulations of up to 17 inches were recorded.

In New York hundreds of motorists spent yesterday morning digging parked cars out from mountainous snowdrifts, many created by the weekend's snow-ploughs.

East Coast airports were crowded with people trying to get away after being stranded through the weekend, when the nation's air transport system suffered one of its worst-ever disruptions.

Major motorways were reopening yesterday, but many smaller roads remained blocked, with some travellers still snowed out.

Early estimates put the insurance costs from the storm at hundreds of millions of dollars, although insurance companies said that it was too soon to attach a precise number to the claims.

"We just don't know at this stage," said Allstate, the large Illinois-based insurer. The American Insurance Associa-

tion, whose property-claims division provides industry-wide estimates of catastrophe losses, also said it was only just beginning to receive reports from member firms.

Mr John Snyder, senior vice-president at AM Best, the specialist rating agency, suggested that the storm which hit the East Coast in December might have been more damaging than last week-end's blizzard. The December storm resulted in more widespread flooding and coastal damage, and resulted in around \$650m of insured claims.

The latest disaster comes after a run of heavy catastrophe losses for big US property-casualty insurers and will exacerbate the financial pressures on the industry. The bomb blast under New York's World Trade Centre complex this month is estimated to have caused over \$1bn in insured damages, while Hurricane Andrew produced a record-breaking \$16bn-worth of claims.

In Florida, high winds battered grapefruit and orange crops, and frosts on Sunday and yesterday caused scattered damage to the fragile flowers that form next year's harvest, according to Mr Bobby McKown, of Florida Citrus Mutual, the state's largest growers' organisation. The damage was "minor" in comparison to storms and freezes that devastated Florida citrus in the 1960s, he said.

Storms lift sugar price, Commodities Page

New York Post files for protection

By Karen Zagor in New York

THE New York Post yesterday filed for bankruptcy protection and failed to publish amid a newsroom mutiny.

The seemingly indestructible tabloid has bounced back from the verge of death several times in recent years, but the latest crisis may prove fatal. It was triggered by a staff revolt following plans to sack about 270 people by the Post's latest potential publisher, Mr Abe Hirschfeld.

On Friday, a bankruptcy

court judge ruled that property investor Mr Hirschfeld could acquire the paper. He immediately ordered dismissal of the editor and threatened to fire about a third of its staff.

Although the paper's current owner, property developer Mr Peter Kalikow, filed for protection from creditors in 1991, the paper was not part of his bankruptcy petition. Mr Kalikow continued to run the paper until January, when bank pressure forced him to put it up for sale. The Post lost about \$5m last year.

Brazil to resume state sell-offs

By Christina Lamb in Rio de Janeiro

SELL-OFF dates and minimum prices for two state companies have been announced by Brazil's President Itamar Franco in a clear sign that the privatisation programme is to resume after a four-month delay.

Pofolefinas, a petrochemicals company, will be auctioned on Friday at the minimum price of \$85.1m (\$60.6m). The sale of the National Steel Company has been scheduled for April 2 with a minimum price of \$1.6bn, despite complaints by its presi-

dent that it has been undervalued.

The decision to go ahead with the sales represents a policy turnaround for Mr Franco, who suspended the programme in December after making frequent criticisms.

Only two weeks ago Mr Antonio Barros de Castro, who as head of the National Development Bank was responsible for the programme, resigned, accusing the president of deliberately blocking the process.

Last week Mr Eliseu Resende, the new finance minister, announced a "deepening and acceleration" of the pro-

gramme as one of his central policies. Ministry officials are even discussing with Mr Franco the sale of assets such as Vale do Rio Doce, the state mining company, and Telebras, the telecommunications company.

Mr Franco's change of heart was apparently motivated by the discovery of the privileges and high salaries enjoyed by the state sector and the considerable costs to the government. This year the state sector will cost Brazil an estimated \$19bn and pay back a maximum of \$10bn in taxes.

Mr Fernando Antonio Habda,

a member of the economic policy team, said: "The President wants to boost government credibility and raise money for social programmes and buying back debt. He now realises that the only option is privatisation."

It is not yet clear what rules will govern the forthcoming sales to meet Mr Franco's concerns over issues such as the currency used in the auctions. Only 1 per cent of the \$4bn raised in sell-offs by the former government was in cash, the rest mainly consisting of domestic debt swapped at par.

Canada's Tories look to new generation for leader

By Bernard Simon in Toronto

CANADA'S governing Conservatives, seeking to reinvigorate themselves before this year's general election, are shedding almost an entire generation of political veterans.

Since Prime Minister Brian Mulroney announced on February 24 he was resigning as party leader, a string of senior cabinet ministers have declined to enter the race to succeed him.

Several have also said they will retire from politics at the election, expected in September or October. The rash of departures is partly a recognition by the old guard that the Progressive Conservative party needs fresh faces at the top if it

is to overcome deep voter hostility. They also reflect the commanding lead built up by Ms Kim Campbell, defence minister.

The latest Mulroney veterans to pull out of contention for the leadership are Mrs Barbara McDougall (external affairs), who is quitting politics, and Mr Bernard Valcourt (employment and immigration).

Other ministers who have dropped out of the race include Mr Don Mazankowski (deputy prime minister and finance), Mr Michael Wilson (trade and industry), and Mr Benoit Bouchard (health).

Mr Joe Clark, prime minister briefly in 1979-80 and who most recently spearheaded efforts to draw up a new constitution,

also plans to leave politics.

Mr Mulroney's successor will be chosen at a convention in Ottawa on June 13. Senior party officials, including Mr Mulroney, are quietly encouraging members of the Tory caucus to throw their names into the ring, partly to generate public interest and partly to deflect unrelenting scrutiny of Ms Campbell.

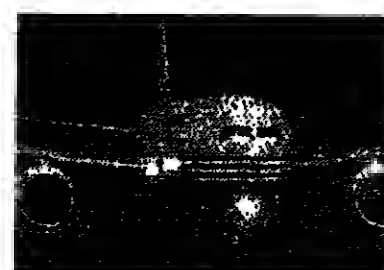
So far, only Mr Patrick Boyer, a respected but little-known backbencher, has formally announced his candidacy.

Two youthful cabinet ministers, Mr Ferrin Beatty, who holds the communications portfolio, and Mr Jean Charest, the environment minister, are still expected to enter the race.



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BOEING

1992 Results

LAFARGE COPPÉE

Reports steady earnings

The Board of Directors of Lafarge Coppée, presided by Chairman Bertrand Collomb, met on March 9, 1993 to review the corporation's 1992 accounts.

Net income, group share, totalled FRF 1,228 million, compared with FRF 1,234 million in 1991, while a rise in the average number of shares outstanding trimmed net income per share from FRF 24.3 in 1991 to FRF 23.4. The Board will ask the General Meeting of Shareholders to approve a dividend of FRF 9.00 or FRF 13.50 including tax credit, which is equal to the 1991 figure.

Despite particularly poor business conditions in Europe, Lafarge Coppée reported 1992 earnings on a par with the previous year's. The group was able to draw on its broad geographical base and the benefits of an unrelenting drive to cut costs.

While operations in cement, concrete and aggregates, and formulated products were undermined by a sharp deterioration of markets in France and Spain, operating profits in North America showed signs of firming.

Lafarge Coppée pursued its drive into new areas - Turkey, Morocco, the Indian Ocean, Venezuela and Eastern Europe - where markets continued to expand.

Altogether, the group reported worldwide cement sales of around 44 million tonnes, on a par with last year, with operating profit up slightly.

Sales
in millions of France

92	30,451
91	31,640
90	32,543
89	30,363
88	22,884

Net income-group share
in millions of France

92	1,228
91	1,234
90	2,192
89	2,178
88	1,880

Industrial capital expenditures
in millions of France

92	2,100
91	3,100
90	3,000
89	2,550
88	1,500

Dividend per share
in France, before tax credit

92	9.00*
91	9.00
90	9.00
89	8.75
88	7.50

*proposed at the general shareholders meeting

Both gypsum business in Europe and cement in Brazil brought significantly higher earnings. In contrast, the sharp drop in lysine prices and the dollar's decline against other currencies wiped out the projected upturn in biochemicals.

Exceptional items during the year included an additional payment on bathroom equipment business sold in 1990.

Gross sales total FRF 30.4 billion, down 3.8% on 1991, although the decline is just 1% when figures are restated for identical structures and exchange rates.

Total capital expenditures and acquisitions came to FRF 3.6 billion, of which FRF 3.2 billion were financed out of working capital provided by operations, and FRF 0.5 billion from the proceeds of asset sales.

Consolidated net debt totals FRF 9.7 billion, compared with consolidated equity (including subordinated debt) of FRF 22.5 billion.

This gives Lafarge Coppée the sound basis it needs to pursue a strategy focused on expansion into high-growth markets and development of new products.

Consolidated and parent company accounts may be consulted at corporate headquarters: 93, rue Nationale, 92100 Boulogne-Billancourt, from March 24, 1993.

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 FAX: 773-835-5000
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1. MIPS=millions of Instructions per second. 2. A study of companies that began downsizing five years ago shows big differences between projected savings and reality. In some cases, getting downsized systems to approach mainframe function actually increased overall costs. Source: International Technology Group, Los Altos, CA. 3. POSIX, OSF/DC and TCP/IP. 4. The IBM S/390 Parallel Systems, which is a trademark of the IBM Corporation. ES/9000 is a trademark of IBM Corp. © 1993 IBM Corp.

NEWS: INTERNATIONAL

Call for rapid Chinese reform revives fears of over-heating

By Tony Walker
in Beijing

MR LI PENG, China's prime minister, yesterday demanded even quicker reform of the Chinese economy, which grew by almost 13 per cent last year, prompting concerns about the danger of overheating.

Speaking at the opening session of the National People's Congress, China's parliament, Mr Li outlined a sweeping programme of economic change aimed at strengthening market reforms and re-structuring the country's bloated state sector.

But in a clear reference to concerns about bottlenecks in the economy due to extremely rapid growth in the past year, he also urged that a "basic balance" be struck between supply and demand.

China's economic planners fear renewed inflationary

pressures such as those that undermined reforms in the 1980s. Indications of pressure on prices have already begun appearing in urban centres where double-digit inflation is being recorded.

Mr Li's remarks about the economy, which accounted for about one-fifth of a two-hour speech, amounted to a careful endorsement of reforms initiated by Mr Deng Xiaoping, China's supreme leader, who was not present at the NPC, even though he is a delegate.

Mr Li has tended to be identified with conservatives who have not shown boundless enthusiasm for Mr Deng's market-oriented reforms.

Mr Li also said that the economy, which surged 12.8 per cent last year, would continue to grow at 8 or 9 per cent annually, for the rest of the 1991-95 five-year plan. Growth had averaged 7.9 per cent for the past five years.

Continued growth of 8 per cent to 9 per cent would ensure that China achieved well ahead of schedule its target of quadrupling Gross National Product between 1980 and the year 2000.

China planned to slash its giant bureaucracy by about 25 per cent, and sharply reduce the number of government departments. Little detail was provided as to how this would be achieved.

China would give particular attention in the next five years to strengthening infrastructure, service industries and agriculture.

Mr Li, a cautious 64-year-old Soviet-trained technocrat who seems certain to be endorsed for another five-year term as premier, was unrepentant about the 1989 Tiananmen massacre in which hundreds of pro-democracy activists were shot by soldiers called in to quell the protests in and

around the city's central square.

"Domestically, in late spring and early summer of 1989, a counter-revolutionary rebellion caused turmoil in Beijing," he declared, adding that China had overcome "numerous difficulties" in maintaining social and political stability and promoting economic and social development.

"Our great socialist motherland will stand firm as a rock in the east forever," said Mr Li when he is blamed by many Chinese for ordering the bloody crackdown on the pro-democracy protesters.

China's NPC will run for about two weeks and, apart from endorsing revised economic growth targets, will also approve the election of new leadership personnel, including the appointment of a president or head of state - a post expected to be filled by party boss, Mr Jiang Zeming.



Prime Minister Li Peng, President Yang Shangkun and National Peoples Congress Chairman Wan Li

Keating puts off poll on republic

By Kevin Brown in Sydney

AUSTRALIA'S re-elected Labor prime minister, Mr Paul Keating, yesterday ruled out a referendum on the abolition of the monarchy until after the next election, due in mid-1996.

Mr Keating said Labor remained convinced that Australians would not be "masters of our own destiny" until the 205-year-old link with the British crown had been broken. However, constitutional change would require a long period of public debate and negotiations with state governments, which would inevitably take several years.

Mr Keating hoped the process could be completed by 2001, the centenary of the federation of the continent's six British colonies, which many Australians regard as the foundation of modern Australia.

The prime minister's comments are in line with Labor's 12-year-old commitment to gradual progress towards the abolition of the monarchy, which was confirmed by the party's policymaking conference in 1981.

Mr Keating announced last month that Labor would appoint a committee to draw up plans for the transition to a republic, but the party did not seek to make the future of the monarchy an election issue.

Confirmation of the timetable for constitutional change will disappoint the republican movement, which gained strength last year after British criticism of Mr Keating's handling of a visit by the Queen.

Republicans will also criticise Mr Keating for backing down on promises to remove the British union flag from the Australian flag. The prime minister said a change of flag would have to await the establishment of the republic.

In his first post-election press conference, Mr Keating moved to patch up relations with Britain. He said Mr John Major, the British prime minister, had congratulated him on Labor's election victory.

Vietnam Communist party sees writing on the wall

Observers believe the country will have to abandon Marxism-Leninism in a few years, writes Victor Mallet

THE STATUE of Lenin still stands tall in central Hanoi. A few blocks away you can go jogging around the lake in what is still called Lenin Park, or sit on a bench and read stories in the Vietnamese Communist Party newspaper about fraternal visits by fellow-communists from neighbouring Laos.

Political scientists have noted with surprise how third world communist regimes, such as the one in Vietnam, have survived the collapse of their erstwhile patrons in the Soviet Union and eastern Europe.

Beneath the surface, however, Vietnamese politics is undergoing a change so profound that Vietnamese and foreign observers believe the ruling party will be obliged to abandon Marxism-Leninism, transform itself into a broad-based "nationalist" front, and perhaps even permit opposition parties - all within a few years.

Party leaders, under Mr Do Muoi, their 76-year-old general secretary, nowadays barely mention commu-

nism or socialism in their speeches. The 2m-strong party, undermined by the collapse of international communism, finds it hard to recruit new members or to persuade existing members to attend meetings.

Since the late 1980s, Vietnam has in any case vigorously pursued a policy of *doi moi* or "renovation", a code word for replacing socialist economics with capitalism, foreign investment and the tenets of the free market.

"When the Communist Party declared its acceptance of the free market economy, it meant that this party is not truly a communist party; they have dropped the communist system," says Mr Phan Dinh Dieu, a mathematician in Hanoi whose views are tolerated by the party and who is regarded by foreign diplomats as a sort of licensed dissident. "The result is that the party is transformed from a communist party into a party of power."

Although it is widely accepted that few Vietnamese, even party members, still believe in communist ide-

ology, the party has tried to smooth the way for traditionalists by suggesting lately that sharp changes of direction can be explained by the addition of the thoughts of Ho Chi Minh (the communist father of Vietnamese independence in the 20th century) to the policy of standard Marxism.

"Our slogan is: 'Let the people become rich'," says Mr Tran Kien, deputy editor of the orthodox party newspaper Nhan Dan (The People). "Now we carry out the market economy but regulated by socialism. It means we don't give up Marxism-Leninism but continue to carry out this ideology including Ho Chi Minh's teachings."

The crucial question for Vietnam is whether the ruling party can manage a peaceful transformation of the political system by steering a path between resentful communist hardliners and Vietnamese liberals - especially those living in the US - who demand the rapid creation of a multi-party democracy.

Vietnam's economic performance

is certainly helping the transition. Revised figures for gross national product show the economy grew by a 8.3 per cent last year, and the country's 70m inhabitants, although still desperately poor, are becoming visibly more prosperous.

Vietnamese officials say that Russia and other eastern European states made grave errors by implementing democratisation before economic reform, a mistake which they believe led to anarchy and a consequent inability to pursue any economic reform at all: it is hard to find diplomats in Hanoi who disagree with that analysis.

The flexibility of the Vietnamese Communist party, its genuine nationalist credentials (in contrast to some of the Moscow-installed parties of eastern Europe) and the absence of any organised opposition to the cautious liberalisation it is pursuing, also work in favour of peaceful political development. To counter the threat of opposition from Buddhist monks, the

party is even said to have spread rumours that Mr Muoi is secretly a Buddhist himself and has been seen in a pagoda.

"They [the Communist party] know it's over, and they are even discussing among themselves the possibility of changing the name," says one Ho Chi Minh City businessman who used to work for the US-backed South Vietnam government before the communist victory in 1975.

"They know and the people know it's over, but the idea of a collapse scares people. They are afraid of bloodshed and chaos, so even the most anti-communist people want slow change."

But the party's attempts to manage a peaceful transition to a post-communist system will probably not go unchallenged. Unemployment, estimated at about 3.5m in urban areas, and widespread corruption in national and local government are both breeding resentment. Already Vietnamese who must now pay school fees can be heard complain-

ing that the good aspects of communism - free education, for example - are being thrown out with the bad.

Party spokesmen are evasive when asked about the future, pointing to the fact that the 1992 constitution enshrines the party as "the force leading the state and society", and falling back on the official policy of "democratisation within the one-party system".

Others are more forthright about the imminent demise of the dictatorship of the single party. Mr Dieu, the free-talking mathematician, believes that the possibility of alternative political parties could arise in as little as two or three years. A diplomat in Hanoi says bluntly: "In five years the [Communist] party will be nationalist or social democrat."

A member of the party, a retired senior civil servant, explains how the party allowed a discussion on political pluralism a year ago. "Now it's finished; it was decided that it was not a good idea for Vietnam," he says. "But it's not forgotten."

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HANNOVER
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Multinational force will have to impose law and order in a political vacuum, writes **Leslie Crawford**

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India's parliamentary opposition party, the Hindu nationalist Bharatiya Janata Party (BJP), yesterday accused Mr P.V. Narasimha Rao, prime minister, of a cover-up over a spate of bomb blasts in Bombay which killed 250 people and demanded his resignation, Reuter reports from New Delhi.

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NEWS: UK



Olympic rings up for grabs from business

By Gillian Tett

THE OLYMPIC rings symbol is to come under the exclusive control of the British Olympic Association in the UK, Mr Peter Brooke, heritage secretary announced today.

Under legislation, expected to be passed by parliament soon, the association will have sole rights to sell the logo to promoters. Until now, its use has been unregulated, and a number of businesses have adopted versions.

Mr Brooke said the move reiterated the government's support for the bid by Manchester, north-west England, to host the Olympics in 2000. The International Olympic Committee requires countries hosting the games to provide a copyright guarantee for the symbol.

The association hopes to raise at least £2.5m from the sale of rights to the logo to sponsors. Companies wishing to use the symbol will have to pay "at least a six figure sum" to become official sponsors and companies which breach the copyright will be prosecuted.

Sharp rise in factory output boosts recovery hopes

By Peter Marsh and Alison Smith

A SHARP RISE in manufacturing production has provided a favourable background for today's Budget by adding to expectations about a UK recovery.

Manufacturing production rose a seasonally adjusted 0.8 per cent in January compared with the previous month, well above expectations in the City. News that manufacturing

output was the highest since August 1991 coincided with growing speculation that Mr Norman Lamont, chancellor of the exchequer, will seize the opportunity in his Budget speech to raise taxes from 1993-94 to curb the growing fiscal deficit.

Pressure on Mr Lamont to take bold action on this front increased last night after Lord Lawson, the former Tory chancellor, said failure to raise taxes by £50m would be a "serious mistake".

At a conference in London, Lord Lawson said a tax rise of this magnitude "could prove a political and economic turning point that is so badly needed". Also, in a surprising departure from his previous enthusiasm for the European exchange rate mechanism, Lord Lawson said it was "only a matter of time" before the ERM broke down after the pressures of German unification and the drive towards a single cur-

rency had robbed the system of its flexibility.

Further indications that the economy may be turning came yesterday with a survey by Trade Indemnity, credit insurers, showing that exporters have increased their order books in the past three months, taking advantage of the 15 per cent devaluation in sterling since the UK left the ERM in September.

The Ombudsman for Corporate Estate Agents, an indus-

try-appointed body, provided further evidence of a revival in the UK housing market by reporting a strong rise in house sales last month.

In recent weeks Mr Lamont has been advised by many in the City and by his own backbenchers that he should head off - through a tough tax increase - the possibility of Britain moving towards Italian-style budget deficits. According to this argument, the more favourable signals

about the economy in recent weeks mean the risk of stifling an upturn by a fiscal tightening has been greatly reduced.

Yesterday's release of the manufacturing figures was accompanied by a warning from the Central Statistical Office that the monthly data may have been distorted by the timing of the Christmas holidays. Even so, in the three months to the end of January, manufacturing output rose by 0.7 per cent compared with the

same period a year previously. That was the biggest year-on-year increase on a three-monthly basis since mid-1990.

All production industries - including energy, water and manufacturing - showed a 0.4 per cent drop in output between December last year and January.

Output of oil and gas fell 6 per cent between the two months, largely because of operating difficulties in the North Sea due to high winds.

MAASTRICHT

Major aims to ratify treaty by end of July

By Philip Stephens, Political Editor

MR JOHN MAJOR is sticking to his target of ratification of the Maastricht Treaty by the end of July despite last week's defeat in the House of Commons.

Amid signs yesterday that some "soft" Tory Euro-sceptics were reconsidering their opposition to the government, senior ministers said that the proposed timetable for the legislation still allowed for ratification before the summer recess.

The prime minister has told close associates that he is

determined if possible that Maastricht should not be allowed to wreck October's Conservative party conference for the second year in succession.

To avoid a damaging confrontation similar to that in 1992 the bill would have had to have passed all the remaining hurdles - including the House of Lords - before Westminster closes for the summer break at the end of July.

Ministers acknowledged that the government still faced possible defeat on a number of opposition amendments.

There also remains a risk that the legislation will be

derailed if opposition parties are successful in pressing new amendments to remove Britain's opt-out from the social chapter.

But barring a dramatic setback on the social chapter, the plans now pencilled in by the government assume that the present committee stage of the legislation will be completed before the second Danish referendum on May 18th.

That timetable is based on the fact that six groups of amendments to the legislation have still to be discussed in the committee stage.

Each of those could be expected to take one or at most two

days on the floor of the Commons.

With the government allocating two days a week to the legislation, that implies a further five or six weeks in committee.

Allowing for intervals necessitated by the Budget debate this week and for a two-week Easter recess, the committee stage would then be wound up in mid-May.

Ministers are increasingly optimistic that the report stage for the legislation - necessitated by the passage of opposition amendments - will be relatively short. That would provide for the final third read-

ing debate by MPs on the legislation to take place at the end of May or early in June. That in turn would give the House of Lords at least a month to debate the treaty.

The government acknowledges that a hard core of between 30 and 40 Tory opponents of the treaty will continue to harry the legislation at every opportunity.

But a public announcement yesterday by Mr George Warden, the former minister, that he would drop his opposition was seen as a signal that some Tory MPs who have previously abstained are now willing to support the bill.

Britain in brief



Quarter of EC rivers substandard

A quarter of Europe's rivers fall below European Community environmental standards, the European Commission said, as it announced a wide-ranging review this year of all its directives on water quality. Mr Tom Garvey, deputy director general of the Commission's environment directorate, told an FT conference in London that some EC standards might be modified or dropped in the light of new scientific evidence, adding that he was disappointed at the lack of improvement in EC water quality in the past 20 years.

Boyd finds pit is viable

British Coal faces severe difficulties in closing its Grime-thorpe colliery, one of 10 pits where production has ended, after an independent consultant rejected its argument that the mine is financially unviable. The support for Grime-thorpe by John T. Boyd, a US consultant appointed by the government, will add to British Coal's problems when it returns to the High Court, probably next month, to put its case for the closures.

Swiftcall wins calls licence

A company selling international calls from Britain to Canada and the USA at substantial discounts from standard British Telecom tariffs has begun operations.

Swiftcall, based in east London, is one of the first companies to gain an International Simple Resale (ISR) licence from the department of trade and industry.

The DTI has so far authorised only Australia, Canada, and Sweden for simple resale competition because it believes no other countries have a sufficiently open regulatory regime.

Scots growth forecast in 1993

The Scottish economy is forecast to resume growing in 1993 after declining in 1992, Mackay Consultants, a firm of economic consultants, believe that Scotland will benefit from the devaluation of the pound because its industries are more oriented towards exporting than the UK average.

Hunt for new tourist chief

The government has turned to headhunters Tysack Accord to find a chairman of the British Tourist Authority after failing to attract a suitable candidate to replace Mr William Davis, who leaves at the end of this month. Tysack has also been asked to find a new chief executive for the BTA to replace Mr Michael Medlicott who is to become European vice president of Delta Air Lines, the US carrier, next month.

Pubs lobby for lottery option

The Brewers' Society is to press the government to allow the country's 65,000 pubs to sell national lottery tickets. Ministers have indicated that pubs would be excluded to distance the lottery from harder forms of gambling and to avoid the risk of reducing charity collections. Mr Robin Simpson, Brewers' Society director, said: "There is no hard gambling in pubs and there is no evidence that charitable giving would suffer if tickets were sold in pubs. In many places, especially rural areas, the pub is the community centre and sometimes the only retail outlet."

Private dinner on Birt's fate

Governors of the BBC are expected to meet at a private dinner in London tonight to try to find a solution to the bitter row over Mr John Birt before Thursday's formal board meeting. It will be the first time the governors have met since the revelation that Mr Birt was for six years a freelance consul-



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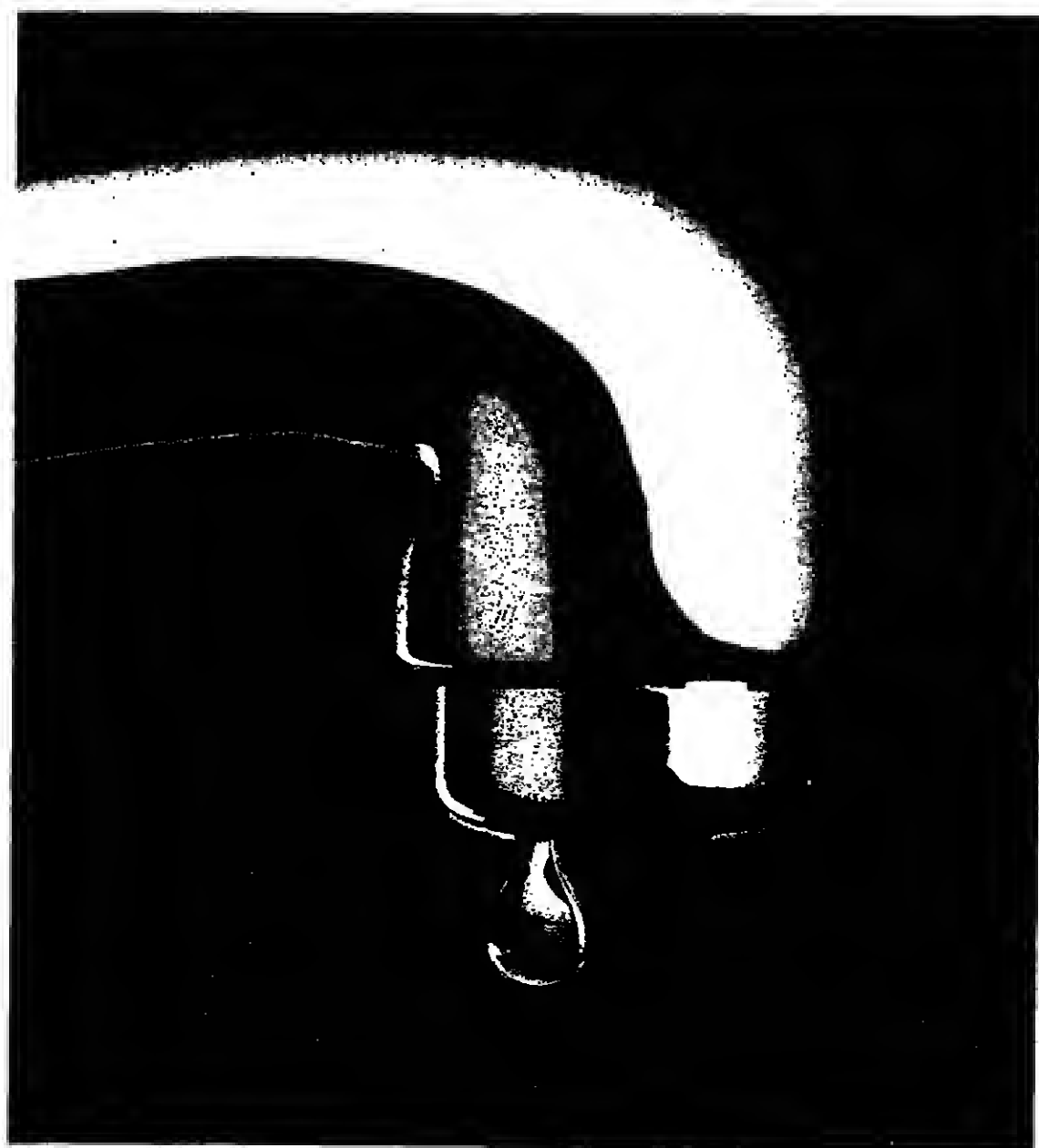
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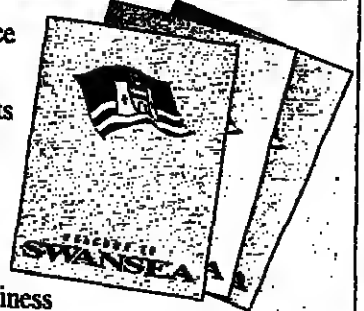
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Government backs down on EC job laws

By John Willman,
Public Policy Editor

THE GOVERNMENT has conceded defeat in a court case over the contracting-out of public services, following legal advice on the relevance of European Commission legislation that protects the terms and conditions of staff when jobs are transferred from the public to the private sector.

The court case concerned a decision by the health authority in South Glamorgan, Wales, to contract out the canteens of three hospitals in Cardiff. The health service union ColISE applied for a judicial review over the failure of the authority to apply the Transfer of Undertakings (Protection of Employment) regulations 1981, which implement the EC legislation in the UK.

The case was due to be heard next week, but has now been halted after the government received legal advice that the Tupe regulations applied. Government lawyers are negotiating with ColISE over the costs and other details.

The decision comes after a union campaign against contracting-out. They say contracting-out has led to job cuts and inferior employment terms in the past.

But the government's move has angered contractors which believe that the government will find further progress on contracting-out difficult.

Confusion over the legislation has already delayed the

government's market-testing programme under which almost £1.5bn of public sector work has been transferred to the private sector.

The government has effectively thrown in the towel, said Mr Cliff Davis-Coleman of Clause 36, a contractors' pressure group. "This will provide a green light for Tupe to apply in all public sector contracts. It makes a nonsense of the government's entire market-testing programme."

Ministers accept that most contracting-out will be covered by Tupe after failed attempts to persuade the EC to amend the laws.

Mr Padraig Flynn, the EC Commissioner for Social Affairs, said on BBC-TV's On The Record last Sunday that there was no general wish to amend the legislation. "It must be remembered at all times that we are concerned about the protection of workers and their rights," he said.

Government ministers believe the decision could make it harder for existing staff to bid for their work if it is affected by contracting-out. If the jobs, pay and conditions of staff are protected, there would be no need to invite an in-house bid for the contract, they say.

Notices of dismissal issued to 180 computing and financial services employees in four London boroughs were rescinded yesterday after it was accepted that the Tupe regulations applied.

Call on UK government to simplify equality laws

By Diane Summers,
Labour Staff

THE EQUAL Opportunities Commission yesterday urged the government to simplify "grotesquely complex" equal pay laws.

The call follows the settlement of a seven-year case involving five women employed by H&J Quick, a Ford dealer in Manchester, north-west England. They were awarded a total of £15,000 when a tribunal found that their work as administrators and financial clerks was of equal value to that carried out by higher-paid men working as parts salesmen, van drivers and car cleaners. Only one of the women still works for the company.

H&J Quick, which has paid the money, said it "felt it was the right time to settle". It said the law was very complex and a lot of management time had been spent on the issue.

Ms Elizabeth Whitehouse, the opportunities commission lawyer who represented the women, said the government should use the employment bill currently before parliament to simplify the equal pay laws. "The grotesquely complex procedures that have forced these women to battle for seven years before winning their right to equal pay can only be condemned," she said.

The commission wants to see the existing sex discrimination act and equal pay acts replaced with a single equal treatment act. Currently, there are long delays before cases are brought before tribunals.

Upturn predicted for construction equipment

By Andrew Baxter

AN UPTURN is in sight for the construction equipment industry after three consecutive years of "devastating" decline, according to the London-based Corporate Intelligence Group. Unit sales of construction equipment such as excavators, loaders, and dumptrucks fell 3 per cent last year to 8,910, the group said. Demand was the

lowest recorded for more than a decade - sales were still considerably less than the peak of 22,544 units in 1988.

The group said the mood of more than 40 leading equipment distributors and manufacturers interviewed last month was bleak "with an overwhelming resentment against the government for doing so little to relieve the situation".

But, it said, there was a general consensus that the worst was behind the industry. Recovery would be patchy and slow to begin with, but demand should strengthen by mid-1993. The group said unit sales will rise by 21 per cent in 1993, even if the government does little more to stimulate the economy. It cites a number of factors to support this forecast: ● Interest rates are down to

an acceptable level, and end-users can contemplate new purchases with realism.

● Good second-hand equipment is hard to find, with a significant proportion of the stock of used machines having been shipped overseas in the last two years.

● Machines sold at the peak of demand are coming up for renewal. Although they will not be replaced on a one-for-

one basis, there will be some comfort for dealers.

The group says demand will probably recover first in the plant-hire sector, resulting in sales increases for backhoe loaders, smaller crawler excavators, mini-excavators and skid-steer loaders. Demand for larger equipment types, such as rigid dump trucks and heavier crawler excavators, will be slower to recover.

Names win stop-loss claim ruling

By Richard Lapper

MORE THAN 100 Names yesterday won a High Court ruling allowing them to recover directly claims on stop-loss insurance policies - personal reinsurance which covers heavy losses.

Lloyd's unsuccessfully argued that the claims under the policies should first be paid into premium trust funds, which contain premium income earned by Lloyd's underwriters from insurance business.

The ruling could ease the cashflow problems of some loss-making Lloyd's Names, who are among several thousand facing heavy losses at the insurance market. Overall losses over the past five years are expected to eventually amount to more than £5bn.

Mr Justice Tuckey in the Commercial Court ruled that Names - individuals whose assets support the Lloyd's market - are entitled to receive recoveries directly from brokers.

Mr Tuckey held that recoveries were not payable directly to the premium trust funds unless specifically stated in the policy or unless the Name had signed an "irrevocable" letter of authority assigning the money to their premium trust fund. A directive that all stop-loss recoveries must be paid to the trust fund issued last year by Mr David Coleridge, then chairman of Lloyd's, was ruled invalid.

A two-week moratorium on the ruling was agreed so that Lloyd's could consider whether to appeal.



Janet Naylor works on the statue of Eros from London's Piccadilly Circus. Eros, a memorial to the 7th Earl of Shaftesbury, the Victorian philanthropist, was taken down last December to repair damage caused by vandals swinging on its leg and will be returned, strengthened, in time for its 100th anniversary on June 29. Westminster City Council has rejected suggestions that the original aluminium statue, created by the English sculptor Sir Alfred Gilbert, should be replaced by a more durable replica. The £30,000 restoration by Naylor Conservation in Telford, Shropshire, should leave the original stronger than before it was damaged.

Several hundred fresh job losses expected at Leyland Daf

By Kevin Done,
Motor Industry Correspondent

A FURTHER round of jobs cuts at Leyland Daf is expected in coming weeks as the receivers act to cut excess stocks and to bring vehicle output into line with forecast demand.

The next wave of redundancies is expected to involve the

loss of several hundred jobs.

The administrative receivers of Leyland Daf, UK subsidiary of Daf, the Dutch commercial vehicle maker which collapsed into receivership six weeks ago, last month cut 1,715 of the company's 5,500 strong UK workforce.

Mr Murdoch McKillop, joint administrative receiver, said

yesterday the company was "likely to be trading in receivership for months rather than weeks. We must make sure that the balance between sales and production is correct."

All three Leyland Daf plants were back in production, and the receivers were now studying what levels of output could be sustained in the present

market. The most advanced plan for rescuing the constituent parts of the Leyland Daf operations concerns the proposed management buy-out of the van business based in Birmingham.

"I think there is a good chance that something will happen. They have had encouraging discussions with institu-

tions. I would hope to be able to formalise plans in the next few weeks," said Mr McKillop.

Mr McKillop has held talks in the US with Paccar, the North American truck maker, to explore its interest in the Leyland truck plant, but plans are also being pursued for a management buy-out.

The future of the UK truck

operations is complicated by the continuing confusion over its future relations with Daf Trucks, the new Dutch/Belgian company formed to take over the core medium and heavy truck operations of the old Daf group.

The success of a management buy-out or outside acquisition of the Leyland plant

appears to hinge on its ability to gain access to Daf Trucks' continental dealer network for sales of its UK-built 45 series light truck range.

Daf Trucks must be "the most obvious candidate" to market the 45 series in continental Europe if it is "able and willing to make a commitment," said Mr McKillop.

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TECHNOLOGY

Bill Clinton has pledged to make technology a central focus of his administration. FT writers look at what the investment really means

Stoking up the engine

"THE GESTALT of the gigabit" is President Bill Clinton's new catchphrase for the high-technology focus of his administration. He has proposed a \$17bn (£11.9bn) four-year plan for new and expanded federal-funded technology projects and tax incentives.

Creating new "high-value jobs" is the primary goal of the Clinton technology policy, which the president unveiled during a visit to Silicon Valley last month. He called for the creation of a "public-private sector partnership" that will generate investment in technology development and encourage the formation of high-tech companies.

We want to "generate more of these kinds of companies, more technological advances to keep the US always on the cutting edge of change and to make sure that we'll be able to create a lot of good new jobs in the future," the president told workers at Silicon Graphics, the computer workstation company where he unveiled his technology initiatives.

Almost 40 per cent of the proposed technology budget is in the form of research and development tax credits designed to encourage private-sector investment. Responding to industry demands, the president has proposed the tax credit be made permanent. Over the past few years the tax credit has been enacted each year, but only after it expired, so companies could not count on it when drawing up their R&D budgets.

The president's broader economic plan also includes tax incentives for long-term investment in small companies and some tax relief on capital investments for larger companies. However, the tax cuts will be at least partially offset by an increase in corporate tax rates.

On the spending side, the Clinton technology policy proposes a significant shift in the use of federal funds to back non-defence research. In fiscal 1993, the civilian share of the total federal research and development budget was approximately 41 per cent, or \$27.9bn, according to the administration. The president aims to increase this to more than 50 per cent, or \$36.6bn by 1998.

In future, the US government will play a direct role in helping companies to develop and profit from innovations rather than funding defence or space missions that serendipitously provide "spin-offs" for the commercial sector.

The flagship of the technology plan is the "information superhighway" scheme: a nationwide high-speed broadband communications network linking businesses, schools, libraries, hospitals, government offices and, ultimately, homes.

Another example of "industry-government partnership" in the Clinton technology policy is the advanced manufacturing initiative which will provide matching funds to industry consortia, using Sematech, the US semiconductor industry research group, as a model.

The federal government will also match state and regional funds to create a national network of "manufacturing extension centres" that disseminate information on the latest manufacturing technology.

The National Institute of Standards and Technology's advanced technology programme will be significantly expanded to provide matching grants to industry-led research and development projects including consortia such as Sematech. Funding for NIST would be increased from \$381m in 1993 to \$1.2bn in 1997. Other national laboratories will also be drawn into the effort to boost industrial competitiveness.

The Clinton policy sets a target of 10 to 20 per cent of the budgets of the labs being devoted to research and development partnerships with industry. Clinton also aims to cut spending on "big science" projects, while maintaining basic research as a high priority.

Although sceptical about how much impact these programmes will have, US high-technology

Clinton's technology proposals (additional funds) 1994-97

NASA civil aviation and short-haul aircraft research	\$600m
Dual-use technology for defence, investment and transition	\$1,331m
Federal Co-ordinating Office for Advanced Engineering and Technology Initiatives	\$1,206m
High-performance computing	\$784m
National High-Speed Interconnectivity and	\$1,206m
National High-Speed Interconnectivity and	\$140m
Information Infrastructure	\$275m
National Supercomputing	\$2,291m
Government supercomputing	\$2,849m
Extend R&D tax credit	\$6,437m
Total	\$17.09bn

Source: White House

industry executives are generally happy with the Clinton administration's increased focus on technology. "We are pleased to see the new administration emphasising the high-technology segment as the key to rebuilding the manufacturing

infrastructure of the US," said William Reed, president of Semiconductor Equipment and Materials International, an industry trade group. The president's leadership in establishing programmes and policy directions geared to advancing the

Information superhighways

The flagship of the Clinton technology plan is the development of "information superhighways", a nationwide communications network.

Building on a programme established in 1991 by legislation sponsored by Vice-President Al Gore when he was in the Senate, the scheme is an ambitious effort to "jumpstart" the construction of networks that the administration says: "have the same effect on US economic and social development as public investment in the railroads had in the 19th century".

Key elements of the plan include

increased federal funding for R&D in supercomputers, high-speed networking and software and a programme to subsidise the construction of networking linking schools, hospitals and libraries.

Sensitive to charges that the programme is an example of "high-tech pork", administration officials stress that the government will not award big contracts to one or two companies. "We are trying to encourage the private sector, create the competition that will ensure that the best technology gets out quickly and provide the leadership so that everyone is

moving in the same direction," says Mike Nelson of the Office of Science and Technology Policy.

Already, there has been an enthusiastic response to the information superhighways proposal in Silicon Valley, according to Ed McCracken of Silicon Graphics.

"The local telephone and cable companies are accelerating plans to install high-speed lines. Potential uses of high-speed networks - in health, education and business - have become 'the subject of cocktail conversation', he says.

LK

development and use of technology will have more impact than the money being spent on technology policy, said Ed McCracken, president of Silicon Graphics.

The high-tech industry is also responding keenly to the president's call for industry-government co-operation. Semi, for example, is proposing a government-backed consortium to develop manufacturing technology for flat panel displays, such as those used in portable computers. Currently, Japan dominates this market.

The readiness of US high-tech industry groups to accept a more activist role by government is in some ways surprising. Silicon Valley, in particular, has long been known for its independent, entrepreneurial companies. "There is still a cowboy spirit in Silicon Valley, we like to think we can take care of ourselves," says McCracken.

Nonetheless, he believes that an "arm's length" relationship between industry and government no longer makes sense. "With the issues facing our country today, in particular the need to create jobs, I believe that we have to work together."

Yet to be seen, however, is whether the policy will produce a net increase in employment. Although a sampling of almost 700 venture capital-backed start-up companies created over 22,000 jobs last year, according to a recent survey, total employment in the US electronics industry has declined in each of the past four years.

New companies are not creating jobs as fast as established companies are laying off workers. It is also evident that technology eliminates jobs - on the factory floor and in the office. Yet to remain competitive companies have to become more productive and cannot afford to be afraid of losing jobs. Industry executives say:

"If you assume that those jobs are going to go away, then you have to deal with the problem. One of the things I like about the Clinton programme is that he seemed to be ready to tackle this issue," says McCracken.

The ability to adjust to the rapid changes brought about by technology advances is one of the trademarks of a successful high-technology company. The government, Clinton says, must work more like that, adopting the philosophy of the high-tech industry, or the "gestalt of the gigabit".

"I believe my job as president is to try to adjust America so that we can win in the 21st century, so that we can make change our friend and not our enemy."

Louise Kehoe

Big science on the back burner

The outlook has never been more uncertain for what were supposed to be the two biggest US science projects of the 1990s: the \$30bn (\$20.9bn) space station and an \$8bn atom smasher, the superconducting super collider.

Although President Clinton favours both, many observers believe his commitment is far from wholehearted. They doubt whether he would invest much political capital in trying to save either project in the face of intense pressure from congressional budget-cutters.

According to John Gibbons, the new White House science adviser, big science projects may have been given too much urgency "compared with other priorities in terms of our national recovery and putting in place an investment strategy for future economic progress".

The Clinton administration's proposal for the SSC is to persevere with the existing plans to build the world's largest particle accelerator in a 86km tunnel beneath the plains of Texas, but to postpone the 1996 completion date by at least two years in the hope of defining more closely the complex equipment required and attracting international partners.

European nations will not contribute because they prefer to invest in their own accelerator at Cern, Geneva. Asian countries have resisted US requests to join the SSC and, even if Japan succumbs, foreign contributions are unlikely to come close to the \$1.7bn originally expected.

There is no question about the SSC's scientific value, says Gibbons: "They're trying to solve some eternal questions about the nature of matter." By recreating on a small scale the conditions of the early universe soon after the Big Bang, physicists hope to gain a new understanding of fundamental forces and particles.

But cynics suggest Clinton's support for SSC may be more closely related to shoring up his reputation in Texas, where there is an election in May for the Senate seat vacated by Lloyd Bentsen, than to his interest in the origins of the universe.

In the case of the space station Freedom, Clinton has told NASA to undertake a complete redesign

to cut costs, currently estimated at \$31bn. "We want to take a fresh look at this and not just take the existing station and start peeling away the pieces," said Daniel Goldin, NASA administrator.

The space station has suffered several scaling-down exercises since President Reagan initiated the project in 1984, with the goal of having Freedom in orbit by 1994. The likely operational date has now slipped to 2000, although NASA has already spent \$8bn on preparatory work.

The latest design review and accompanying political uncertainties have left Freedom's supporters in Congress and the aerospace industry feeling confused and apprehensive.

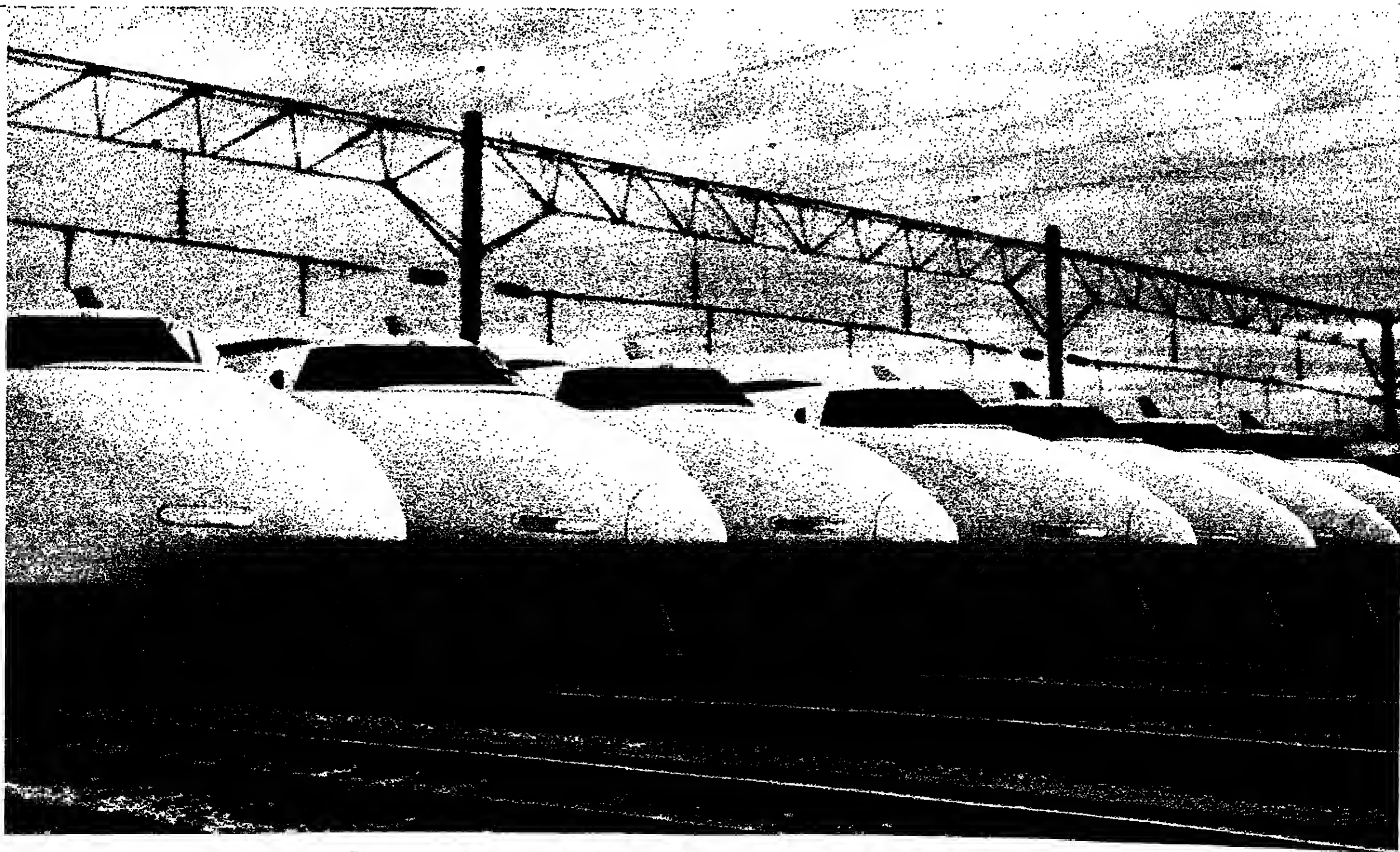
"My biggest fear is that the whole programme could be lost if Congress votes against it when the new design is presented in June," says Tom Williams of McDonnell Douglas. Space station contracts keep 2,500 people employed at the company's aerospace centre in southern California.

The fate of Freedom will have ramifications well beyond the domestic aerospace industry because the project has international partners, notably Japan and the European Space Agency. Their representatives are now in Washington working with NASA's redesign team.

Esa plans to spend \$2.9bn over the next seven years on its contribution, a manned laboratory to be attached to the main US space station. "This could come out positively for Europe, if our support becomes more important to NASA because they have to drop some of what they were planning to do," says Daria Robinson of Esa. "Or it could turn out negatively if the Americans cut down the project to the point where it is no longer interesting to take part."

To keep its options open, Esa is also discussing co-operation on future space stations with Russia. Esa may provide a module for the Russian Mir-2 in the late 1990s. But NASA too is talking about bringing Russia into its plans and optimists believe there is now an opportunity of making the space station into a global project.

Clive Cookson



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The decline in Japan's entrepreneurial spirit may have far-reaching economic consequences, reports Charles Leadbeater

Rekindling the creative flame



The economic downturn has swept away many family enterprises

Japan is facing a crisis of entrepreneurship. The sharp downturn in the Japanese economy has brought small business confidence close to the lows it reached at the depths of the 1975 recession caused by the rise in oil prices.

Small business bankruptcies are about 40 per cent up on a year ago, compared with about 4 per cent for large companies. Employment in family enterprises is falling at an annual rate of about 10 per cent a year, compared with a continued moderate rise in salaried employment at large businesses. This downturn comes after a lengthy period of stagnation in small business performance, with declining rates of start-up and falling labour and capital productivity.

Japanese small companies have been a vital spark of creativity in Japan. Many of the household names of Japanese manufacturing had their roots in entrepreneurial companies founded after the second world war. The Honda Motor corporation started in a motorbike repair shop and Matsushita, the largest integrated electrical appliance maker in the world started as a small components manufacturer.

Small businesses are a vital source of flexibility, acting as sub-contractors to larger groups. They have also provided employment stability.

Between 1981 and 1991 the share of employment accounted for by small companies, employing less than 300 workers, was stable in construction and real estate and fell marginally in manufacturing, retailing, financial services, transport and services. About 80 per cent of the Japanese workforce is employed in small companies.

The stability of small businesses' share of employment in Japan has been one of the main reasons for the country's low unemployment rate which did not rise above 3 per cent in the 1980s. But there is mounting evidence that the economic downturn has hit Japanese small businesses at a time when they were already running out of steam. A combination of structural factors and the sharp cyclical downturn means small businesses could be facing a shake out which could have far-reaching consequences for the economy.

The rate of business start-ups declined from about 7 per cent of all enterprises in the early 1970s to close to 4 per cent in the late 1980s. The net rate of business creation, the number of openings minus the number of business closures, stands at just under 1 per cent, according to official statistics gathered by the Ministry of International Trade and Industry.

But even that understates the decline in entrepreneurship. Start-

ups by independent entrepreneurs now account for less than half of new enterprises. The rest are subsidiaries of large businesses.

Moreover Japan's small businesses have gradually become less dynamic. In 1975 they were 62 per cent as productive as Japan's large companies. In 1990 they were only 50 per cent as productive, according to MITI figures.

One of the main reasons for the fall in labour productivity is that since the 1970s small businesses have been a vast "labour-sponge" soaking up workers displaced from manufacturing companies. These have maintained their international competitiveness by streamlining their factories.

Now small companies are facing a number of pressures which will force them to restructure too, making it more difficult for them to soak up labour which is being shed from larger companies.

As small companies get about 60 per cent of their finance from banks, they are vulnerable to a more restrictive approach to lending by the banks which are burdened by mounting bad loans. Banks are taking a more cautious approach to lending to risky small businesses, after a rapid expansion of lending in the mid-1980s.

In manufacturing small sub-contractors will feel the brunt of moves by large companies to cut costs by lengthening product cycles and reducing the number of model variations. This means manufacturers will need fewer components made by fewer suppliers. Small businesses in manufacturing are heavily exposed as about 66 per cent of them are sub-contractors.

Small manufacturers generally make less sophisticated products than large companies and are thus more vulnerable to mounting competition from rapidly industrialising low-wage economies.

Deregulation in retailing is making it more difficult for small companies to compete with large groups. Between 1988 and 1991, the number of large retail outlets grew by 9.4 per cent, compared with a fall

of 1.8 per cent in the number of small shops, according to MITI.

Many small companies are trapped by the rise and fall of Japan's land prices. The rise in land prices during the speculative bubble economy of the late 1980s made it difficult for small companies to get started. However, small businesses which used land holdings as collateral to increase their borrowing now face a tight financial squeeze. According to MITI's estimates a 30

per cent fall in land prices would require small businesses to reduce their outstanding debts by about 27 per cent to maintain a constant ratio of debt to assets.

Commercial land prices have fallen by between 4 per cent and 20 per cent and are still falling, according to official surveys. The implication is that small businesses will have to devote a growing share of their earnings to paying off debts, rather than investing.

In the short term small businesses' hopes of salvation rest with the government. Small businesses are a vital source of support for the ruling Liberal Democratic Party. The government has begun to cushion them against a credit crunch imposed by the banks restricting their lending.

In February, the Ministry of Finance wielded its influence over the commercial banks by officially asking them not to refrain from lending to small businesses.

The government has also increased public lending to small businesses through the public sector Peoples' Finance Corporation and the Small Business Finance Corporation.

Bank of Japan statistics show public-sector lending is growing in an attempt to offset a sharp fall in the growth rate of bank lending to small companies.

At its height in 1987, commercial bank lending to small businesses grew by 12.7 per cent, while the Small Business Finance Corporation's lending contracted by 3.3 per cent. However, since 1990 the roles have been reversed. In 1990 commercial bank lending to small businesses grew by 11 per cent but public lending rose by almost 20 per cent. In June last year public lending was rising at an annual rate of about 8 per cent, while commercial lending was growing at only 1.3 per cent.

Yet the government will be less able to offset the slowdown in commercial bank lending than it was during past downturns. The rise in private-sector lending to small businesses in the 1980s means they are now more heavily dependent upon the banks. In 1983 public sector lending to small businesses was worth about 25 per cent of bank lending, but by last year this figure was only 13 per cent of the bank's outstanding loans.

Moreover, the rise in public-sector lending will do nothing to relieve the longer term problems - intensifying competition from the rest of Asia, weaker relationships with their main Japanese clients, sluggish domestic demand and weak balance sheets.

The waning of the entrepreneurial spirit is becoming a source of official concern. The government has just begun to address what could prove to be a prolonged period of restructuring. A recent MITI report on small businesses said: "Considering the major contribution made by active business opening to boosting the country's industrial vigour, the decline in new start-ups, especially by individual entrepreneurs, has come to a point where we really need to worry about its grave consequences for the future of the Japanese economy."



In a Nutshell

Cutting support for consultancy

The government is to cut subsidies for the Enterprise Initiative Consultancy Scheme, which provides consultancy help in fields such as marketing, quality and design. Michael Heseltine, trade and industry secretary, said.

Support will be reduced from two-thirds to half of the cost to businesses in assisted and urban programme areas and from half to one third of the cost elsewhere, with effect from March 24.

When the consultancy scheme ends, as planned, in March 1994, it will be replaced with a programme delivered locally through "one-stop shops" and Training and Enterprise Councils. Heseltine said last week in a written answer to a parliamentary question.

The new programme will consist of a diagnostic service, a consultancy brokerage and continuation "in some form" of consultancy support and technology-related advice.

Conference call for small firms

Business training, counselling and the impact of the Training and Enterprise Councils are among the themes to be considered at the 16th National Small Firms' Policy and Research Conference to be held at Nottingham Trent University on November 17-19.

The conference is the main UK small firms event for academics and small business practitioners. Summaries of proposed papers must be submitted by April 30. Contact Conference Administrator, Commercial Centre, Nottingham Trent University, Burton Street, Nottingham NG1 4BU. Tel: 0602 486409.

Commission comes under attack

A two-pronged attack on the European Commission and on its directorate general for enterprise (DG23), for failing to

do enough for small businesses, has been made by Ann Robinson, head of policy at the Institute of Directors.

The commission has failed to take into account the needs of small and medium-sized firms in devising the rules for the single market, while DG23 has proved a disappointment in defending their interests, she told an IOD small business conference in Belfast.

"The rules of single market appear to have been designed for big business and bureaucrats," she said. "Some of the most burdensome regulations for small firms have passed through the council of ministers without so much as a peep from DG23."

Campaigning to spread the word

The Management Charter Initiative, set up to improve the performance of the UK's managers, has launched a campaign to spread best practice in the field of small business initiatives.

The Managing for Growth campaign comprises the publication of recent research into small business problems, seminars and consultancy help. The aim is to ensure small business organisations do not "re-invent the wheel" but will be able to obtain information on schemes which are already working.

Among early examples of good practice identified by the MCI are a programme which provides high-level women managers as role models for their counterparts in small and medium-sized businesses and secondments of unemployed large company managers to small businesses. MCI, Russell Square House, 10-12 Russell Square, London WC1B 5BZ. Tel: 071 872 9099.

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City Leisure (Earls Court Road) Limited
Waterside (Hotel) Limited

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- Jimmy's Bar, Newcastle, is located in the popular Quayside area of the city and achieved turnover of approximately £700,000 in the year ending 31 December 1992.
- Yel Bar, Leeds, is a popular venue bar which was fully refurbished during 1991. Turnover for the year ending 31 December 1992 was approximately £730,000.
- Buzz Nightclub, Newcastle, which has recently been refurbished, is forecast to achieve turnover of approximately £800,000 during 1993.
- Bliss Nightclub, Newcastle, which has also been recently refurbished, is situated adjacent to Buzz, incorporates a restaurant, and is forecast to achieve turnover of £416,000 during 1993.
- Club Copa and Harpo's Bar are located on the Earls Court Road, London, and achieved a turnover of approximately £1,100,000 during the year ending 31 December 1992. Harpo's Bar was fully refurbished during 1991.
- The Waterside Hotel, located adjacent to Jimmy's Bar is in the Quayside area of Newcastle, is a 20 bedroom hotel and achieved turnover of approximately £210,000 during the year ending 31 December 1992.

For further information, please contact either Richard Daszkiewicz or Adrian Berry at the address below.

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For further information please contact either Nigel Voight or his manager Scott McDonald of Coopers & Lybrand, PO Box 262, Maidstone, Kent ME14 5XG. Telephone: 0622 672981. Fax: 0622 662053.

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For further information please contact:

A J P Brereton FCA, The Joint Administrative Receiver, Price Waterhouse, York House, York Street, Manchester M2 4WS. Tel: 061-228-6541. Fax: 061-236-1268.

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For further details please contact the Joint Administrative Receivers, John Ayre FCA and Mark Dobell FCA, Ernst & Young, Barclays House, 6 East Parade, Leeds LS1 1HA. Telephone: 0532 431221. Facsimile: 0532 442241.

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Selection process for Commission jobs attacked



EUROPEAN LAW

The appointments of two directors to the European Commission Directorate-General for Fisheries have been annulled by the European Court of First Instance, because the successful applicants were chosen by the Commission not because of their qualifications but because the EC countries from which they came were "owed" the jobs.

The case was brought by two of the unsuccessful applicants for the posts, who were rejected on the grounds that they were insufficiently qualified in spite of both having worked on EC fisheries policy. The two successful applicants were economists from Spain and Italy.

The Court found that the two previous holders of the posts had been Spanish and Italian and that, in spite of advertising the jobs openly, the Commission had already decided who the new directors would be before the applications of the other candidates had been considered properly.

The case brings into the open the political nature of the selection procedure for Commission jobs. It is hoped the Court's judgment will lead to greater transparency in Commission appointments.

T-58/91: *Boas and Fischer v Commission*, CFI 4CH, March 3 1993.

Luxembourg birth and maternity allowances discriminatory

The European Court last week upheld an action brought by the Commission against Luxembourg for imposing discriminatory rules for the grant of birth and maternity allowances.

Under Luxembourg law, ante-natal allowances were payable to pregnant women on condition that they were legally domiciled in Luxembourg and post-natal allowances were payable on condition that one of the parents of the child had been legally domiciled in Luxembourg for at least one year at the time of the birth. Maternity allowances were also available for any pregnant woman or mother legally domiciled in Luxembourg.

The Court ruled both types of allowance were social security bene-

fits under EC law and thus should be capable of being enjoyed by both migrant as well as purely national workers.

The Luxembourg government argued that the rules were not discriminatory because they applied to both Luxembourg nationals and nationals from other EC states. The Court rejected that argument, as it found that the conditions were more easily fulfilled by a Luxembourg national than a national from another member state.

C-111/91: *Commission v Luxembourg*, ECJ FC, March 10 1993.

Belgian environmental legislation in breach of EC law

The European Court has ruled Belgium in breach of EC environmental laws on air quality norms for nitrogen dioxide.

The EC legislation sets certain limits for the amount of nitrogen dioxide in the air. These limits can be reduced by individual Community countries, but only after consultation with bordering states which may be affected by lower limits.

The legislation also obliges member states to consult one another in the event of a pollution incident which results, or is likely to result, in the limits being exceeded, to keep the Commission informed of any consultations, and to give it the opportunity to participate.

Belgium implemented all the legislation except for the provisions relating to the consultations. The Belgian government submitted that these provisions did not need to be implemented as Belgium did not envisage taking any action which would lead to the consultation procedure being opened.

The Court rejected that argument. The provisions relating to the consultation procedure were an indispensable element of the legislation.

Failure to implement such provisions constituted a breach of Community law, in that Belgium had failed to implement fully the EC legislation as requested.

C-186/91: *Commission v Belgium*, ECJ FC, March 10 1993.

BRICK COURT CHAMBERS, BRUSSELS

The UK government is shortly expected to announce its preferred option for reforming the law on companies abusing their power in the marketplace to stifle competition. In a green paper published last November, Mr Michael Heseltine, the trade and industry secretary, canvassed three options. These are:

- to retain the existing case-by-case approach under the 1973 Fair Trading Act and 1980 Competition Act for dealing with anti-competitive practices. Under this option, the Office of Fair Trading would be given stronger investigatory powers and businesses would be made liable for damages and possible civil penalties for continuing abuse;

- to introduce a general prohibition on abuse of market power based on Article 86 of the Treaty of Rome, backed by tough investigatory powers for the OFT and fines on companies of up to 10 per cent of worldwide turnover;
- to introduce a general prohibition, give tough investigatory powers to the OFT and authorise stiff financial penalties, but retain the investigation provisions of the Fair Trading Act, which allow for industry-wide monopoly inquiries.

Initial reading of the green paper suggested that the government favoured the third option. This in itself was a big shift from its position just two years ago. Speaking about competition policy in July 1990, Mr John Redwood, then corporate affairs minister, said: "Existing UK competition law has plenty of powers to enforce open and fair markets. There are already several statutes giving extensive investigatory powers to the authorities. The government has decided not to introduce a prohibition-based policy on abuse of dominant position but to concentrate on effective use of existing powers."

The change in attitude since 1990 reflects growing pressure for comprehensive reform. The government remains committed to reform of restrictive practices legislation, and is aware of the contradiction of changing the law on anti-competitive agreements while leaving the law on abuse of market power unchanged.

Since 1990, subsidiarity - allowing decision-making to be carried out at the lowest appropriate level - has emerged as a leading issue within the EC. Brussels has made it clear that in future it will deal only with the most significant competition infringements or cases which are likely to advance the law, leaving the rest to the national courts.

There is also genuine concern that the present UK system is not working. It is weak on deterrents, and the 1990 Competition Act has provided slow and ineffective proce-

No clear-cut favourite

Robert Rice on the three options for reforming the law on abuse of market power by dominant companies



Divergent views: no clear consensus has emerged to guide Mr Heseltine

dures for tackling abuse.

In light of such pressures, those businesses hoping that the consultation exercise will result in a decision not to change the law on monopoly power are likely to be disappointed. The key question, however, is whether the responses to the green paper have persuaded the government to shift ground since November, away from a position close to option 3 - calling for a general prohibition - to one based on option 1 - retaining the case-by-case approach. Mr Heseltine's problem is that no clear consensus on the best option has emerged.

The Confederation of British Industry, after extensive consultation with its own members, is broadly against any reform, but if the government is determined to press ahead, then it would favour some variation based on option 1. Businesses used to competing with a dominant player in the market, such as Mercury Communications, are generally behind option 3. The Consumers' Association also supports it. "Restraints on competition almost always act against the consumer, by encouraging inefficiency, by limiting choice and by enhancing the power of vested

interests," says Mr Stephen Locke, CBI's director of policy. "What is needed, and already exists at Community level, are clear prohibitions, substantial penalties for breaching them and full rights for third-party redress, enforced by an agency with strong powers of investigation."

The views of competition lawyers appear to vary with the position of their corporate clients. But when they divorce their views from their clients' interests, most appear to favour options 2 or 3.

The government, too, finds itself in a quandary in that a prohibition on abuse of a dominant position would have a huge impact on the regulated utilities, such as telecommunications, gas and electricity. It retains a golden share in most of them and might understandably be reluctant to adopt a regime which could have a big effect on the way they currently do business. On the other hand, the government is aware that there can be no justification for a prohibition not applying to the regulated utilities.

The view of the CBI will undoubtedly carry weight. The employers' organisation says a prohibition is too inflexible and "an inappropriate tool for ensuring that markets are

competitive". Even dominant companies must be in a position from which they can react to competitive pressures, it says. The CBI wants to retain a system which enables cases to be dealt with on an ad hoc basis rather than attempting to devise rules which make generalised distinctions between competitive and anti-competitive practices and ban the latter. It is unacceptable, the CBI adds, "that business could become liable for fines for behaviour which at the time it was undertaken was believed to be legal".

The CBI also believes a system based on prohibition would impose very high costs on business in the form of compliance and these costs would not be offset by any benefit resulting from the change - a view which is partially supported by many competition lawyers.

This looks like a "big industry" response to the issues raised by the green paper. But the CBI insists that it represents the views of its members across the board. The CBI's smaller-companies council is particularly concerned that small and medium-sized enterprises would bear a disproportionately high percentage of the costs imposed by a prohibition system.

The views of companies such as Mercury (which has competed against BT, the dominant player in telecommunications, for the past 11 years) cannot be ignored, however. In contrast to the CBI's "if-it-ain't-bust-don't-fix-it" message, Mercury believes that if the present system is proven to be inadequate then tinkering with it should not be an option. It believes that, for the regulated industries, industry-specific rules are not effective enough to deter anti-competitive behaviour. Instead, it argues, a radical solution is needed. It favours the introduction of a prohibition system making anti-competitive conduct per se unlawful, backed by a choice of effective remedies including the right to bring private legal actions.

Bringing private legal actions would be extremely difficult, however. It would take a long time to gather the necessary evidence, and the English courts have no experience in judging such complex economic issues. But Mercury says the intention is not to overload the courts with lengthy cases. Rather, it wants a system under which the "deterrent effect will be sufficiently strong to replace the existing incentive to abuse market power until told to stop".

Mr Heseltine faces some tough choices. The underlying pressure to beef-up the law on abuse of market power and to bring the UK into line with its European partners remains. But the government will also be wary of imposing a heavy new burden of costs on UK industry as it begins to emerge from recession.

LEGAL BRIEFS



High cost of failure to carry out reforms

The Law Commission, the UK government's law reform body, complained last week that government failure to implement its proposals for reform, particularly in the area of property law, was costing the UK millions of pounds in unnecessary legal fees and court costs. More than half of the 40-plus reports produced by the commission since 1984 remain either under consideration or unimplemented. This is in sharp contrast to 20 years ago. Of the 30 law reform reports submitted to the government between 1966 and 1973, 28 were implemented in an average time of two years.

Outside advice

An independent survey commissioned by City lawyers Taylor Joynton Garrett of Britain's top 1,000 companies shows that 68 per cent are using more or the same amount of legal advice from outside law firms this year compared with 1992.

In-house legal departments are still contracting, however, with 53 per cent of companies saying they would be employing the same number or fewer in-house lawyers this year. Lawyers working in medium-sized companies with smaller legal departments are particularly at risk, with 15 per cent of companies in this category expecting to make cuts in their in-house legal teams in 1993.

The survey also showed that 20 per cent of the top 1,000 companies had recently taken advice on corporate recovery matters, and that 10 per cent had sought advice on issues connected with the future viability of their businesses or part of them. The companies all agreed that law firm fees were "very high", but that cost was only the fifth most important factor when choosing legal advisers. Specialist expertise came top.

Degussa on Balance

Measures Begin Producing Results

New Organizational Structure Strengthens Competitiveness

Degussa did well despite a considerably more difficult environment. Cost-reducing measures introduced at an early stage have made a significant contribution to the improvement. A consistent reduction in costs and a focus on core businesses will also continue to strengthen our competitiveness. Additionally, a new and decentralized organizational structure is enhancing our market orientation, and all synergic potential is being utilized.

Sales and Earnings

Group sales totalled DM 12.8 billion. Although

this was 4 % below the previous year's figure, it was attributable solely to lower sales from precious metals trading. Excluding precious metals trading and after offsetting changes in the composition of the group of companies included in the consolidation, sales rose slightly by 2 %. Group pre-tax earnings were up by 12 % to OM 200 million and Group net income rose by 23 % to DM121 million. The improvement in Group income was generated primarily by the Chemicals and Pharmaceuticals Sectors. For Degussa AG, pretax income was DM 93 million - the previous year's level. Net income for the year totalled DM 61 million, of

which OM 10 million is to be transferred to the reserves and DM 51 million paid out to the shareholders as a dividend per share of OM 7.00.

Investments

Overall Group capital investments amounted to DM 605 million and financial investments totalled OM 103 million. Cash flow grew substantially over the previous year's figure, rising to DM 789 million. As a result of the capital increase of nominal DM 54 million, implemented in September 1992, Degussa received a total of DM 243 million including the additional paid-in-capital. The capital stock of

Degussa AG now totals DM 419 million. The new shares are entitled to dividends from the beginning of fiscal year 1992/93.

Research and Development

Based on Degussa's new organizational structure, R&D is now for the most part controlled by the operating areas. This enhances innovative power and more

September 30, 1992 the Group had a total of 33,425 employees - down 3 % from the previous year. After offsetting the increases and decreases attributable to acquisitions and divestments, the number of employees was down by 1,994. Payroll costs of OM 2.7 billion were at about the previous year's level. During the current fiscal year the number of

effects of the healthcare reform will have a negative influence on the Pharmaceuticals sector. However, through the early introduction and vigorous implementation of our cost-reduction measures, we have undertaken prudent steps to limit the negative influence of the economic environment and thus enhanced the Group's strength.

Degussa Group Consolidated Balance Sheet at September 30, 1992 (Not a disclosure under Articles 326 and 328 of the Commercial Code)			
Assets	DM million	Equity & Liabilities	DM million
Property, plant & equipment	2,835	Issued capital	419
Investments	580	Revenue reserves & profit available for distribution	1,340
Non-current assets	3,415	Shareholder's equity	1,759
Current assets	1,561	Provisions	2,210
		Long-term liabilities	1,376
		Short-term liabilities	2,174
Total	7,519	Total	7,519

rapidly transforms R&D results into marketable products. A total of 2,919 employees was active in the Group's R&D activities, with outlays in this area totalling DM 482 million.

Employees

The number of employees declined considerably. As of

employees will be further reduced.

Outlook

For the near term, a worldwide economic upswing is not in sight. Quite on the contrary, particularly in Germany, overall recessionary conditions worsened still further. The

From the Statement of Income	
Group Consolidated	DM million
Sales	12,815
Cost of materials	7,854
Payroll costs	2,716
Depreciation	542
Income from investments	38
Income taxes	79
Net income for the year	121

Upon request, a copy of our Annual Report may be ordered from the Public Relations Department, Degussa AG, P.O. Box 11 05 33, D-6000 Frankfurt/M. 11, Germany

Frankfurt am Main, March, 1993
Degussa Aktiengesellschaft
The Executive Board

DOWN TO EARTH SOLUTIONS
Degussa

Opera in concert

Peter Grimes

The high point of Matias Rostropovich's current Britten Festival at the Barbican was intended to be the two concert performances of *Peter Grimes*. Up to a point, the intention was realised.

On Sunday, the excellence of the London Symphony Orchestra and Chorus was the highlight of the performance. Since the principal gain of such operatic-in-concert is the host of opportunities offered for close-up examination of the score, the fine quality of the playing only enhanced admiration for the myriad fine detail of the music. A beautifully poised viola solo launching the Passacaglia offered a notable instance; so too the pitiless characterisation of the Act 3 dance band, placed just enough to allow the listener to note anew how subtly Britten worked his slyly placed anagrams into the fabric of gathering dramatic tensions.

A front-rank cast had been engaged: again, the pleasures of witnessing its most assured members in action fed one's admiration for the phrases Britten wrote for their characters. A singer's aim on such occasions should be the nicely judged infusion of characterisation into the smooth, clear delivery of notes. Such sharp-profiled singer-actors as John Dobson (Boles), John Cunliffe (Swallow), Anne Collins (Mrs Sedley), Mervyn Davies (Annie) and the spunky Jason Howard (Keene) - all experienced in the *Grimes* productions of Glyndebourne, RNO or Covent Garden - hit home their points with vivid economy. It was good to hear Ryland Davies taking a character role, the Rector, with such elegance. Platform entrances and exits added to the concert-drama - not though, the added boobing of the female chorus-member filling in for the boy apprentice.

But the three principals, newcomers to their roles, revealed their inexperience in ways that sometimes rocked the concert-opera balance. Bryn Terfel's preening of his youthfully magnificent bass-baritone made only a superficial connection with Balstrode. Nancy Gustafson, dressed as a handsome West Coast belle with a glitter of diamonds in her hair, sang with a generalised warth that too rarely found the centre of Klen's precisely placed notes.

It can be no easy matter to undertake one's *Grimes* in the city where Peter Pears and Jon Vickers have held sway. The Canadian Ben Heppner, a heroic singer of uncommon intelligence, sensitivity and hounteous vocal gifts, struggled with those portions of the vocal writing most closely linked with Pears's tenorial idiosyncrasies. He will surely find his way deeper into the role, and should be fervently encouraged to do so - but, let us hope, under a conductor less far removed from the opera's "real world" than Rostropovich. To be brutally frank, it seemed to me that on this evening, and for all the conductor's generosity and musically enthusiasm, he hasn't a clue of how *Peter Grimes* actually goes.

Max Loppert

Second Barbican *Grimes* concert tomorrow

The first thing to say of this large exhibition of British art in the 1960s, that David Mellor - he of Sussex University - has selected and documented so copiously, is that it is beautifully presented, fascinating and extremely enjoyable at every turn. The second, which follows inevitably upon anything whatsoever to do with "the Sixties" - to those of us, that is, whose early career was coincidental with them - is that of course it is misconceived.

The exhibition's faults are the creatures of its virtues, for Mellor is so taken with his material, in all its aspects, that he offers us neither a thorough documentary nor a straightforward celebration of the art, shown on its own terms for its own sake. We are taken down the byways of the social history of the times, tramping along the road from Aldermaston, reading *Private Eye* and the *International Times*, gazing at Christine Keeler, mocking Harold Macmillan, or Harold Wilson as the case may be, listening to the Beatles, the Who, sitting in at Horseley.

And as we browse, so we find ourselves chewing on the art - *tachisme*, or "action painting", colour-field abstraction; Pop painting, hard-edge and optical; New Generation sculpture. So again we are deflected back to the documentary, to the places and the circumstances, to the loose and shifting affiliations and interests of artists throughout the period. Back we go to the Royal Col-

Pop go the Sixties

William Packer both admires and questions the exhibition at the Barbican Art Gallery

leg; the studios and bomb-sites of Notting Hill of the late 1960s; and to the warfts and warehouses of Saint Katherine's Dock ten years on. The photographs in particular are marvellous, by Roger Mayne, Roger Coleman, Roger Freeman, Lewis Morley and Don McCullin - all those fresh, young, earnest, ambitious faces. I had expected such stuff to make me feel rather old. I can only say that I came away feeling not as old as all that.

It is all wonderfully indulgent and enjoyable, but the doubts remain, even so. The problem with any such survey is that it can never be at once hermetic and inclusive, particular and comprehensive. And with *Sixties*, saddled with that tendentious reputation and over-simple label, the problem becomes acute. What were "the Sixties", and when, if ever, did they begin? For anyone of my generation, born in the late 1930s and early '40s, they began, if ever, long before, with Elvis and Brando, Osbourne, Kerouac and Traditional Jazz, Suez and Hungary. By 1965 or so, with satire and Profumo, the minicam and Jean Stripton's legs, they were over. The *Sixties* of Wilson, Flower Power, Protest, Prague and Paris, Sergeant Pepper and Peace & Love, were always

another age, another world.

In eliding the two periods, Mellor rather misses the point, and the opportunity, both in sociological and creative terms. Nor does his basic premise hold: that there is a period now so neglected as to be in dire need of critical rehabilitation. Where has he been all these years? *Private View*, the Russell, Robertson, Snowdon encapsulation of his early period was published in 1986, and to turn its glossy, stylish pages today is hardly to move back into a vanished world.

Where are they now, Caro and Paolozzi, Freud and Auerbach, Jones and Blake, Caulfield and Hoyland, Riley and Hodgkin, King and Hockney? Well, still here, I suppose. The world has moved on, and while some artists have fallen into obscurity, following generations, of sculptors especially, have had their day in their turn. But, for all that, we are hardly addressing total eclipse.

Mellor speaks of "realigning parts of the hidden history of British art", and quite rightly draws attention again to the work of William Green, with his action painting; to Tony Messinger and his expressionist image of James Dean's crashed car; to Pauline Boty, who died young, with her definitive Marilyn. "The only

Blonde in the World". But where are the kitchen-sink painters and where, in particular, is Brathy, with his paintings for the film of "The Horse's Mouth", with Alec Guinness as Guile Jimson? And if there are to be the compendium and collage-based paintings of Boty, Blake and Phillips, where are those of Anthony Donaldson? And if the St Martin's sculptors are well represented, why is there so little of Paolozzi, and why nothing at all of the Royal College sculptors of the time, Hall, Panting, Plackman and the rest?

But we are all experts on the Sixties, and to carp too much is too easy. I wish that Mellor had confined himself to the earlier period, but that said, I can only admit that he has most admirably caught the energy and sense of engagement that so characterised it. In those early, still comparatively innocent days, it was an energy directed above all upon the work itself and the doing of it. He hopes were that it would attract notice, that it would sell, that a name would be made thereby - but which young artist has not hoped as much? The important thing was that the work was done anyway, for its own sake, and today its essential



Quintessential Sixties: Brigitte Bardot by Gerald Laing, 1963; oil on canvas

integrity still shines out.

Most of all it is apparent here in the "Situation" abstraction, shown by the Arts Council in 1963 - the first flush of maturity in the work of such as Gillian Ayres, the Cohen brothers, Hoyland, Law, Irwin, Mundy, Plumb, Smith, Vaux and Young. There they all were, European in

sensibility yet responding to what was coming out of New York, looking about them but remaining quite themselves. They were professional enough - the professional ethic would come later. Mellor is quite right in this respect, that there is an authentic British school we have consistently undersold.

The *Sixties* art scene in London: the Barbican Art Gallery, the Barbican Centre EC2, until June 13, supported by the Hulton Deutsch Collection; Apple UK; Atlantic European. David Mellor's excellent and substantial book on the exhibition - more than a mere catalogue - is published by Phaidon, £22

Theatre

Frank Pig Says Hello

Frank Pig Says Hello at the Royal Court Upstairs represents a type of play increasing its popularity in studio venues: a tight, two-handed play, a drama which asks actors and designers to be versatile, and in order to make itself understood urges the audience to sever contact with the rational world. But this makes deadly, wearisome and stultifying theatre.

Patrick McCabe's first play is an adaptation of his own fine novel, *The Butcher Boy*, midway between Patrick McGrath's *Spider* and Ian McKean's *The Cement Garden*. It comes from the Gate Theatre, Dublin after winning - inexplicably - a Dublin "New Play" award last year.

The stage action centres on the mental life of Frankie "Piglet" Brady, his daydreams and his psychoses. The play eschews plot, and opts for series of revisited and altered scenes from Brady's childhood interwoven with episodes from later life. He turns out to be a sad child enslaved to fantasies from 1950s comics. He is disruptive at home and school, in league with a real-imaginary friend who becomes his alter ego in later life. His mother kills herself, his father dies and stays unburied in the parlour, while Brady takes a job in an abattoir.

The verbal interplay between past and present is a technical triumph for actors David Gorry and Sean Rocks, who deliver quick-fire Irish banter, but it makes woful dialogue on stage. "I had news for Philip. Philip, I have news for you. News? Yes, News. For me? Yes."

This play fails because, despite director Joe O'Brien's ingenuity in switching between scenes, the play makes no concerted impact. No one scene causes another one; the logic of psychosis means that anything can happen at any time, and that removes suspense. The narrative moves quickly, but by telling everything, it prevents tensions, affections



Wasted talent: David Gorry (top) and Sean Rocks

and events from being shown and acted out. The appearance of a character with a red handkerchief is preceded by "He had a red handkerchief in his pocket, and the crease on his trousers would cut your hand."

Elsewhere, the action leans on musical effects: Glen Miller's "Don't Sit Under the Apple Tree" recurs periodically to punctuate the scenes as does Brady's own song, "I'm a little baby pig I'll have you all to know, with my little curly tale and my nose that turns up so."

The result is a confusing, difficult and annoying play which fosters a short attention span. Such works have altered the course of theatre. But this offers neither information nor moral challenge. It settles into an intellectual game. It makes its effect not in the situation which it creates for the characters, but in the smiles and scowls of the actors. It is a shame and a waste that the piece is so well acted.

Andrew St George

Royal Court Upstairs until April 3, then on a national tour through April and May

Opera in Genoa/Richard Fairman

Donizetti's 'Roberto Devereux'

The side walls were fashioned to resemble Venetian houses with their balconies forming the traditional side boxes, looking down on the stalls as though over a central piazza - a novel idea, which gives the theatre a thoroughly Italian atmosphere of its own.

All this, however, is a mere counterpoint to its triumphant main theme: the excellence of the acoustics. According to a recent opinion-poll the sound qualities of the new theatre have won almost unanimous approval, and I am not surprised. The voices project with remarkable clarity. At this performance of Donizetti's *Roberto Devereux* which I saw on Sunday each singer had only to step to the front of the stage to ensure an enormous vocal impact.

What with *La Favorite* in Cardiff

and *L'assedio di Calais* at London's Guildhall School of Music in the last fortnight, it would seem that Donizetti's serious operas may be inviting re-appraisal ahead of his bicentenary in 1997. *Roberto Devereux* is one of the most red-blooded of all. To succeed, a performance needs to work up a real head of steam in the royal show-down that crowns Act 2 and that is what Jan Latham Koenig achieved here, conducting the very respectable Genovese orchestra.

With the exception of the main character of Elizabeth I - the Polish soprano Jolanta Omilian, not a great voice, but dramatic and strong, able to stamp her authority on the opera - the roles were cast with some of the best of the younger Italian singers. Vincenzo La Scala was the stylish tenor Earl of Essex; the

baritone Roberto Frontali sang a well-focused, firm Duke of Nottingham. Best of all was Gloria Scalchi, who showed no sign of strain at all in tackling the high mezzo part of Sara: clearly a notable talent.

Audiences in Genoa are liable to express their displeasure at modern productions, so there was no suggestion of updating this piece of Tudor historical fiction to the era of Thatcherite domination or Italian political corruption scandals. The staging was grandly traditional, with luxurious drapes and tapestries providing opulent spectacle for its Palace of Westminster locale. On its own terms it all worked splendidly and was a first-rate advertisement for a company happily settled in its new home.

With four years to go, the Royal Opera in London might also want to think about extending its repertoire to more of Donizetti's historical operas. The addition of *Roberto Devereux*, arguably the most exciting musically of the three, to its existing *Anna Bolena* and *Maria Stuarda*, would make a properly regal trilogy.

At the Teatro Carlo Felice, Genoa

Concert/David Murray

Arditti String Quartet

appreciation of string-sound. Everything told; it was a clarvoyant account, and one to remind us why Webern's later music struck a postwar generation of composers with more revelatory force than Schoenberg's own.

For contrast the Arditti threw in Webern's 1906 "Rondo", a recent exhumation and a loquacious, skittery exercise in chromatics which shows what Webern - and Alban Berg too - might have stuck at, had their individual passion for deeper organisation (and Schoenberg's own stern example) not propelled them onward.

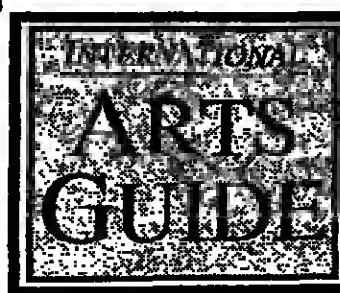
Hearing Schoenberg's 1927 Third Quartet next made the point vividly. Post-tonal writing could aspire to

e Beethovenian density, but only if its defining rules were as tough as Beethoven's period-tonal ones had been. This Third, like Bartok's Fourth, used to have a reputation for pursuing an ideal of the New all too single-mindedly (where their later quartets were supposed to aim at friendlier compromises). The Arditti performance proved that intelligent loyalty to the new plan can attain complete expressive conviction without cheating, without falling back upon stock Romantic echoes.

That bracing result was only slightly compromised, after the interval, by the Arditti's coolly rapturous account of Schoenberg's *Verklärte Nacht* sextet (with two

distinguished guests from the Alban Berg Quartet). Might it be a precondition for playing later Schoenberg so well that the players must have fathomed earlier Schoenberg, post-Romantic but pre-"dodecaphonic", with snob sympathy?

From the start of the 1890s sextet, where the Arditti turned the usual thick bass-swells into hard, doomy throbs, thus sharpening the drama of the piece immeasurably, it was clear that this "Transfigured Night" would be freshly transfigured. And it was: the later contrapuntal strife transparently argued, the apotheosis made luminous by professional care for the notes, without super-added sentiment. Before and after his single-handed musical revolution, Schoenberg aered just such searching executive attention - but inspired champions of the Arditti order have been few and far between.



AMSTERDAM

Concertgebouw Tonight: Richard Dufallo conducts Radio Philharmonic Orchestra in works by Webern and Schoenberg. Tomorrow and Sat: Vassili Sinaiski conducts Netherlands Philharmonic in Tchaikovsky and Beethoven. Thurs, Fri: Riccardo Chailly conducts Royal Concertgebouw Orchestra in works by Donizetti, Keurils, Dlephendrock and others. Sun: Krysztian Zimerman piano recital. Next Mon and Tues: Tokyo String Quartet (6718 345).

Beurs van Berlage Sat: Alexander Vekouletsky conducts Het Orkest in Walton's Cello Concerto (Godified Hoogeveen) and Shostakovich's First Symphony. Sun afternoon: Netherlands Chamber Choir in works by Pizzetti and Petraschi (6270 466).

Musiktheater Tomorrow, Sat (in repertory till March 30): Glen Wilson conducts Pierre Audi's production of Monteverdi's *Ulisse*, with Anthony Rolfe

Johnson, Fri (in repertory till April 10): premiere of Dutch National Ballet's new Tchaikovsky production, with choreographies by Balanchine and Edouard Lock (6255 455).

ANTWERP

De Vlaamse Opera Tonight: final performance of Gilbert Dello's production of *Faust* conducted by Stefan Soltesz, with Johan Del Carlo in title role (233 6888). deSingel Tonight: Mitsuko Shirai song recital. Fri: Bach concert with Il Fondamento. Sat and Mon: Emerson Quartet. Sun: Sylvain Cambreling conducts Orchestra of the Monnaie in Gerard Grieg's *Les espases* - acoustics (248 3800).

BRUSSELS

Théâtre National Tonight: Bettina Goldoni adaptation directed by Jean-Claude Berutti. Daily till Sat (217 0303). Palais des Beaux Arts Thurs: Herbert Blomstedt conducts San Francisco Symphony Orchestra in Sibelius' Seventh Symphony and Bruckner's Fourth (507 8200).

GENEVA

Grand Théâtre Poulenc's *Dialogues des Carmélites* can be seen tonight, Fri and Sun, in a staging by Françoise Rochaix conducted by Michel Plasson. The cast includes Marie McLaughlin and Felicity Palmer (311 2311). Victoria Hall Tomorrow: Armin Jordan conducts Orchestra de

le Suisse Romande in Frank Martin's Violin Concerto (Petrak Forum in Bilet's Pearl Fishers. Fri, Sat: Netherlands Dans Theater in choreographies by Ribeiro, van Meneen and Duato (360 4930). Dr Anton Philipszaal Tomorrow: Hague Philharmonic chamber music evening. Sun: Lev Markiz conducts New Sinfonietta Amsterdam in works by Haydn and Mozart (360 9810).

THE HAGUE

Dantheater Tonight: Opera Forum in Bilet's Pearl Fishers. Fri, Sat: Netherlands Dans Theater in choreographies by Ribeiro, van Meneen and Duato (360 4930). Dr Anton Philipszaal Tomorrow: Hague Philharmonic chamber music evening. Sun: Lev Markiz conducts New Sinfonietta Amsterdam in works by Haydn and Mozart (360 9810).

UTRECHT

Vredenburg Tonight: Vassili Sinaiski conducts Netherlands Philharmonic in works by Tchaikovsky and Beethoven. Fri: Alexander Lazarev conducts Bolshoi Orchestra. Sat: Ivan Fischer conducts Radio Philharmonic Orchestra in Schumann, Spohr and Dvorak. Sun afternoon: Jean Fournat conducts all-Debussy programme, with soprano soloist Françoise Pollet. Sun evening: Ton Koopman conducts Bach's St John Passion (314544).

ZURICH

This week's highlight at the Opernhaus is the premiere on

Sat of a new production of Massenet's *Herodide* with Grace Bumbry, Cecilia Gasdia and José Carreras. Mantred Honeck conducts a staging by Gianfranco de Bosio (also March 23, 25, 28, April 1, 3, 17, 21, 24, 28). The repertory also includes Il barbiere di Siviglia tomorrow, Madama Butterfly with Yoko Wetanabe and Francisco Araiza on Thurs, a ballet mixed bill on Fri and Sat afternoon, and the new Honeck/Bosio production of Der Freischütz on Sun evening (262 0809).

VIENNA

Staatsoper Tonight: Giselle. Tomorrow and Sun: Il barbiere di Siviglia, with Gloria Scalchi, Rockwell Blake and Enzo Dara. Thurs: Christoph von Dohnanyi conducts Adolf Dresen's new production of Siegfried, with Siegfried Jerusalem and Hildegard Behrens (also March 22, 28). Fri: Capriccio. Sat: Medama Butterfly, March 27: Seiji Ozawa conducts revival of *Faust*, with Benjamin Luxon (31444 2555). Odeon Impressions de Pelléas, Peter Brook's Debussy

adaptation. Daily till Sun (Wiener Festwochen 585 1676).

CONCERTS

Musikverein Tonight: Alexei Weissenberg piano recital. Tomorrow: Cleveland Quartet. Thurs and Fri: Pinchas Steinberg conducts Austrian Radio Symphony Orchestra in Wellez's First Symphony and Mahler's Lied von der Erde (Linde Finney and Gösta Winberg). Sat evening, Sun morning: André Previn conducts Vienna Philharmonic, with soprano Sylvia McNair. Sun evening: Elene Bashkirova plays Schumann's Piano Concerto with Tonkünstler Orchestra. Next Mon: Chik Corea (505 8190). Konzerthaus Herbert Blomstedt conducts San Francisco Symphony Orchestra in works by Copland and Bruckner (tonight) and Dukas, Harbison, Sibelius and Stravinsky (tomorrow). Fri: Thomas Zeltmair trio. Sat afternoon and Sun morning: Vienna Chamber Orchestra plays Beethoven, Schubert and Tchaikovsky. Next Mon: Budapest Festival Orchestra plays Kurtag (712 1211).

WASHINGTON

Kennedy Center French Dance Festival dominates the next two weeks, with performances by leading French classical and contemporary dance companies, including Ballet de l'Opéra de Paris in a mixed bill of works by Petit and Lilar and Nureyev's production of La Bayadère. Alexandria

Symphony Orchestra gives a concert tomorrow, followed by New York Philharmonic under Kurt Masur on Sat and pianist Ivo Pogorelich on Sun (202-467 4600).

THEATRE

Baltimore Symphony Orchestra Fri, Sat, Sun at Joseph Meyerhoff Symphony Hall: Eri Kies conducts Strauss' Don Juan and Tchaikovsky's Fourth Symphony. Next week: Swingle Singers (410-783 8000). THEATRE ● The Makropoulos Secret: Karel Capek's Gothic fantasy. Till April 11 (Washington Stage Guild 202-529 2084). ● Uncle Vanya: a Chekhov production by Washington Shakespeare Theater. Till April 10 (Gunel Arts Center 703-739 9886). ● Summer and Smoke: Tennessee Williams' poignant drama. Till April 18 (Arena Fichandler's 202-488 3300). JAZZ/CABARET Blues Alley Jazz Supperclub Daily till Sun: McCoy Tyner Trio. Next Mon and Tues: pianist Marcus Roberts (1073 Wisconsin Ave, in the alley, 202-337 4141). Barns of Wolf Trap Tonight: Lavern Baker, R&B. Tomorrow: all-female group of Irish musicians and step dancers. Fri: Asian American music. Sat: Banjo Breakdown, classic bluegrass from Virginia. Next Tues: Krie Kriakofferson (1824 Trap Road, Vienna, Virginia, 703-255 1916).

European Cable and Satellite Business TV (All times are Central European Time)

MONDAY TO THURSDAY

Super Channel: European Business Today 0730; 2230

MONDAY

Super Channel: West of Moscow 1230. Sky News: Financial Times Reports 0630

WEDNESDAY

Super Channel: Financial Times Reports 2130

THURSDAY

Sky News: Financial Times Reports 2030; 0130

FRIDAY

Super Channel: European Business Today 0730; 2230. Sky News: Financial Times Reports 0530

SATURDAY

Super Channel: Financial Times Reports 0930. Sky News: West of Moscow 1130; 2230

SUNDAY

Super Channel: West of Moscow 1830. Super Channel: Financial Times Reports 1900. Sky News: West of Moscow 0230; 0530. Sky News: Financial Times Reports 1530; 2030

A bizarre tug of war between two of the world's leading automobile groups for the services of an idiosyncratic Spaniard who calls his staff "warriors" appeared to have ended yesterday in victory for Germany's Volkswagen and defeat for General Motors of the US.

GM announced in Detroit yesterday afternoon that 52-year-old Mr J Ignacio Lopez de Arriortua, its colourful head of worldwide purchasing, had definitively quit - apparently to take up a contract of employment with Volkswagen - after five days of wavering between the two companies.

However, a bemused Mr Jack Smith, GM's chief executive, told a news conference, scheduled to announce that Mr Lopez was staying in Detroit, that "it is not clear to me what his intentions are, or where he is at the present time."

Volkswagen had spent weeks carefully wooing Mr Lopez, but GM fought a furious last ditch campaign to persuade him to stay, including an offer of promotion to executive vice president of GM and the presidency of its North American automotive operations.

But, despite the promotion and entreaties from tearful members of his purchasing team, Mr Lopez decided to leave. GM said yesterday that factors in his decision included his family's desire to return to Europe and a GM decision not to build a new kind of super-efficient manufacturing plant, championed by Mr Lopez, in the Basque region of Spain from which he hails.

Whatever the factors prompting the departure, such an intense battle over a man who just a year ago was unknown outside the automobile manufacturing world illustrates how VW and GM's North American operations share some serious problems in common, notably bloated cost structures.

Mr Lopez, who was head of parts purchasing for GM Europe, based in Russelsheim, West Germany, between 1988 and 1992, was a key member of the team which turned GM Europe from losses into one of the world's most profitable vehicle businesses - and a stark contrast to the company's core North American operations, which have lost \$12bn over the past two years.

He radically altered GM's relations with its European suppliers and shifted a large quantity of work from high cost German parts companies to cheaper manufacturers in other parts of the region. GM

Watching the whirlwind

Martin Dickson, Christopher Parkes and David Waller on the battle for a car executive



Lopez: his presence has been a catalyst for change at GM

ended up with one of the lowest cost bases of any European assembler. In May last year Mr Smith, a former head of GM Europe, summoned Mr Lopez to Detroit to do the same in North America as part of a belated restructuring which also involves the closure of 21 plants and loss of at least 75,000 jobs over the next few years.

Mr Lopez set about the job with gusto. He infuriated some of GM's outside suppliers by insisting that they slash their prices by 20 per cent or more. He initiated a system where hit-squads, so-called Picos teams, went into parts factories inside and outside GM, looking for ways to improve production methods.

Critics argue that his cost-cutting demands could endanger the quality of some GM parts, or discourage suppliers from carrying out research and development with the company. But Mr Lopez and his supporters point out that he has been offering much longer-term contracts to those parts companies which can meet GM's quality, service and price specifications.

Whatever the truth, his campaign has already saved GM hundreds of millions of dollars and his presence in Detroit has been one of the most powerful

catalysts for change inside the slow-moving, bureaucratic company, sending a powerful signal to employees and suppliers alike that it is deadly serious about its restructuring. With an engaging smile, and in broken but passionate English, he has repeatedly warned the American motor industry that western industrial society risked defeat at the hands of the Japanese.

"We must transform the Western ability to create intelligent excuses into positive creativity," he declared in a speech earlier this month, taking a swipe at suppliers who complained he was making impossible demands of them. His personal idiosyncrasies have added to the impression of fundamental change. For example, one of his first actions on arrival in Detroit was to issue staff with a booklet describing his preferred "warrior diet," which eschews "poisonous" sugar and potatoes and encourages the consumption of only fruit for breakfast.

However, the Lopez revolution is a long way from completion - he was planning over 1,000 Picos workshops in suppliers' plants this year, and over 1,300 in GM ones - and his departure for Volkswagen after only 10 months in the job

will almost certainly slow the momentum of the company's reforms.

Volkswagen, for its part, is in urgent need of fundamental reform and Mr Ferdinand Piëch, chief executive since the beginning of the year, is expected to announce Mr Lopez's appointment as part of a radical upheaval of senior personnel, to be announced after today's supervisory board meeting.

Mr Piëch already has two former, but more junior, GM managers on his staff at VW's Audi subsidiary. Mr Erich Schmitt, a one-time member of Mr Lopez's cost-cutting team was recently appointed director in charge of buying, finance and organisation.

Mr Jürgen Gebhardt, Audi's new production director, was poached from Adam Opel, GM's German subsidiary, where he was plant manager at the low-cost showpiece works in Eisenach, eastern Germany. Opel has denied VW's self-esteem by stealing market leadership in the former GDR - even though the VW brand was recognised by more than 90 per cent of former east Germans before reunification, compared to less than 30 per cent for Opel.

VW is thought to have made an operating loss of DM1bn in its core VW division last year and is woefully inefficient compared to other European and Japanese volume manufacturing competitors. Whilst its rivals began rationalising over a year ago, VW is only now taking the hard decisions which will enable the group to weather what Mr Piëch last week termed the worst downturn in the German motor industry since 1945.

VW needs to drastically reduce its cost structures over the next 12 to 18 months.

Plans to trim the 276,000 workforce by 36,000, or 13 per cent over 5 years, look insufficiently trenchant to deal with VW's cost problem. VW has also begun to realise that it needs to reform its relationship with its suppliers. Audi's Mr Schmitt recently said the group had set the goal of reducing the prices of components purchased from outside suppliers by 25 to 30 per cent over the next four to five years.

Mr Lopez could, therefore be the change agent VW needs - although his mercurial, Hamlet-like behaviour over the past five days might make Mr Piëch wonder just what kind of one-man whirlwind he is getting.

Mr Major's talking head

Joe Rogaly



When Mr Norman Lamont rises to deliver the Budget this afternoon, watch Mr John Major. You should be attentive to what will be one of the remarkable phenomena of the week. Observe: words will come out of the Chancellor's mouth, but you will not see the prime minister's lips move. Mr Lamont's jaw will waggle up and down, but there will be no indication that Mr Major's hand is up the back of his jacket.

You may be forgiven for thinking that your eyes are deceiving you. The Budget will be read out as if by Charlie McCarthy, America's most famous wooden effigy; the ventriloquist will be Mr Edgar Bergen, aka John Major. Some chancellors - Lord Lawson springs to mind - never sat on their prime ministers' knees, although even in the latter's case there was always something he wanted in the Budget that Lady Thatcher didn't, and vice-versa. Some rely for their jobs, their reputations, their very political existence, on the whims of their immediate boss.

In the present instance the dependence is two-way. Edgar Bergen desperately needs Charlie McCarthy to perform well; Charlie cannot perform without him. "It was ever thus", Chancellors meet prime ministers once a week or so for "bilateral". It is always important that the prime minister of the day concurs with the strategy for managing the economy put to her or him by the chancellor. It is therefore unfair to Mr Lamont to argue that he is mouthing Mr Major's policies.

Possibly, the truth is that there is something more important at stake this afternoon than whether this particular chancellor remains in office until this summer, next summer, or the one thereafter. Today's Budget is regarded by Downing Street as a part of the process of putting Britain's administration back together again. It is intended to help reconstruct the authority that was shattered on Black Wednesday. For Mr Major and his chancellor have yet to rebuild the nation's confidence in their ability to do the jobs they are paid to do. If their remuneration was performance-related, and assessed according to public esteem, they would be living on social security.

The pair of them are in the same boat, on the same creek, searching for the same paddle. If, as many believe, the chancellor irrevocably lost his honour when he failed to resign on that fateful Wednesday, what of the prime minister? Both had defended Britain's position in the exchange rate mechanism with equal fervour, Mr Major because he believed in it, Mr Lamont because he had to. Both had spoken of the irresponsibility of abandoning the fixed exchange rate, right up to the moment that sterling was ejected from the mechanism. Some of their ministerial colleagues believe that the chancellor should have offered himself as a sacrifice, thus deflecting criticism from Mr Major. We do not live in such heroic times.

The prime minister does of course have the authority to replace Mr Lamont, but he seems to be convinced that it would be politically profitable for him to do so. It is probable that the success or failure of the chancellor's current energetic efforts to win a sympathetic hearing will weigh at least as heavily for or against him as the actual contents of today's Budget. The prime minister can influence or control the fiscal stance. He can pull the strings on that. Image is another matter. Only the chancellor can turn himself into an effective persuader.

It is becoming fashionable for politicians to recognise that that is what they need to do. President Clinton, learning the lesson taught with such brilliance by President Reagan, is showing that he understands that direct communication with the electorate, always a necessary part of democratic government, is indispensable in the age of television.

Douglas Hurd, one of the British government's few skilled practitioners of electronic persuasion, spoke last Friday about growing tension between "achievers and critics".

The burden of the foreign secretary's remarks was that the critics, especially when they "hunt as a pack" create "stereotypes which can lead us astray from reality". Mr Hurd is right. Britain's media gather as baying hounds upon this prey or that, nearly always collectively. The foreign secretary's remarks also suggest that doers are of greater importance than those who merely carp. As a former doer, but now one of the latter breed, I bow my head in acknowledgement - adding only that when achievers make a mess of things, we critics get inordinate enjoyment out of feeding on their flesh.

That is what has happened to the government. Its more sanguine ministers believe - hope - that the pack will start having a different time when economic recovery is seen to be underway. The little matter of the bill to ratify the Maastricht treaty must also be over and done with. As to that, the government's chief whip, Mr Richard Ryder, accepts that he cannot cobble together a majority unless Labour abstains. Procedural motions, and amendments for which Labour proposes to vote in favour, will be lost. But Labour needs to abstain on the big issues, in order to maintain its own unity.

You will see from this summary of its position to date that the government has positioned itself on a ladder of achievement, upon which it aims to climb away from the critics' jaws. The first step was last autumn's public spending statement. The second is this afternoon's Budget, the third the passage of the Maastricht bill. Economic recovery is the final leap.

It will not be so easy as that sounds. The autumn spending controls were relatively painless; it is the current search for long-term cuts that is truly difficult. The economic recovery will have to run long and strong before the fear of unemployment is eliminated from Conservative voters' minds. The Maastricht bill remains a gamble.

Tomorrow's verdict on the Budget, almost certainly favourable, will be premature. As the late Iain MacLeod used to say, you should not judge a Budget until the finance bill is published. That is about a month away. Meanwhile, to save himself and his mentor, Charlie McCarthy will have to keep talking, swivelling his head round to whoever will catch his eye.

The prime minister can control the fiscal stance of today's Budget. Image is Mr Lamont's job

LETTERS TO THE EDITOR

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Economic reasoning is faulty

From Mr Robert Solomon.

Sir, Lester Thurow's Personal View (March 10) on the need for the expanding US economy to "decouple" from its trade partners contains some remarkably faulty economic reasoning. He argues that a surge in manufactured imports would create increased unemployment as the US "locomotive" moves ahead faster than other countries. Yet that surge in imports would depend on a much larger surge of demand and gross domestic product in America.

Imports of manufacture constitute only 5 per cent of America's GDP. Thus to get Thurow's \$45bn surge of such imports, GDP would have to move ahead by \$900bn or 15 per cent. That would create many more new jobs than the \$45bn of additional imports would displace.

This is rather obvious first-level economics, and it is surprising that the Dean of the Sloan School at MIT needs this lesson.

Robert Solomon, The Brookings Institution, 1775 Massachusetts Avenue, NW, Washington DC 20036, US

Not so much tropical rainforest

From Prof Ghilleen T France.

Sir, I should like to correct the alarmingly optimistic figure for the area of this planet which is covered by tropical forest, given in your article, "FAO cuts estimate of tropical forest loss" (March 8). This states that 37 per cent of the planet is covered in tropical forest.

It states correctly that, according to FAO figures, 1.75bn hectares of tropical forest remain; however, this is not 37 per cent of the planet. It is 3.4 per cent of the total area of the planet and 11.6 per cent of the total land surface of the planet.

More alarming for those of us trying to preserve the biodiversity of the species-rich tropical rainforest is that it has now been reduced to 0.83bn hectares, or only 6.5 per cent of the total land surface.

There is no room for complacency if we are to preserve this ecosystem which is so vital for the functioning of our planet. Ghilleen T France, director, Royal Botanic Gardens, Kew, Richmond, Surrey TW9 3AB

Ford chief spells out how UK government must aid industry

From Mr Ian McAllister.

Sir, In your leader about manufacturing on March 8, you said that the answer to previous difficulties lies partly in government policies but also in the hands of industrialists. This is true, and for our part at Ford we have been working with some success to improve our basic design, engineering and assembly capabilities. Also, we have been investing in new products right through the recession. Our aim, along with many other manufacturers, is to provide more exciting, safer products, with higher quality and lower costs.

From the government, in the near term, we hope that in today's Budget there will be no measures that will stifle the first indications of recovery in car sales, and that revisions to company car tax will not result in tax bands that would continue to cause distortion of the market at threshold levels.

More fundamentally, we believe that the government should support industry through the provision of better scientific, technical and management education. Further, we consider that any education or training programme should recognise the importance of developing professional standards, at all levels of industry. Government should also assess the merits of establishing a new science and engineering college with the ambition to earn a reputation for excellence similar to that of universities such as MIT in the US.

The government can help industry by creating the right economic environment. This includes stability in policies, investing in the nation's infrastructure, the creation of a true common market in Europe, and a conclusion of the Uruguay Round.

With respect to investment from Japan, Britain should examine carefully whether it is likely to strengthen or weaken the base of vital research and engineering skills in this country. For example, Japanese cars produced in the UK, together with the components they contain, are largely designed and engineered at centres in Japan.

Finally, the powerful long-term causal links between manufacturing success and success in key service businesses should not be forgotten. The huge success of Japanese manufacturing exports of the last decade made possible the dramatic growth of Japanese banking around the world; not the other way around.

Ian G McAllister, chairman and managing director, Ford Motor Company, Brentwood, Essex CM13 3BW

Only one justification for no tax increase

From Prof Douglas McWilliams.

Sir, I hesitate to question Mr Samuel Brittan's analysis, though my hesitation is not increased by the fact that he can play in support of six of the government's allegedly wise men. The quality of an economic judgment seems to be inversely proportional to the number of economists putting it forward simultaneously - witness the 364 co-signatories of the 1981 letter to the Times or 4,000 ex-employees of the East German ministry of economics.

But Mr Brittan's argument that a tax increase should be delayed (Economic Viewpoint, February 25) appears to be based on an inconsistent theory of expectations formula-

tion. If a tax increase is considered to be probable, in the real world most people will take this into account in their behaviour even before it is announced. So the case for delaying an inevitable tax increase is weak.

The only justification for Mr Lamont avoiding a rise in taxes in his Budget is that he may feel that taxes will not be raised at all. If he feels confident that Mr Portillo's review will deliver sizeable cuts in public spending, this would justify a neutral Budget, leaving the revised levels of public spending to be announced in November.

While the government continues to borrow £1bn a week, it remains subject to the moods of the financial markets. And

these markets have tended not to give Mr Lamont the benefit of the doubt. Their confidence in UK economic prospects is only likely to revive when the chancellor puts forward a programme to eliminate public borrowing based on something more credible than Ms Rosy Scenario (who made an unwelcome reappearance in the Autumn Statement). Such a programme would improve the trade-off between interest rates and the exchange rate and create scope for further cuts in interest rates if the recovery fails to gain momentum.

Douglas McWilliams, chief executive, Centre for Economic and Business Research, 18 Kent Terrace, Regents Park, London NW1

Reality of PowerGen pay talks

From Mr Tony Cooper.

Sir, The headline to your report on PowerGen's pay offer ("PowerGen grants pay deal of up to 5 per cent", March 15) talked the level of the settlement up to 5 per cent but, as was correctly reported in the latter part of the story, the reality is different. Such exaggeration damages the process of open and fair negotiation.

The offer which is now to be subject to a ballot of the trades unions' members in PowerGen is for a 2.5 per cent increase in basic salaries for all staff. A further one-off lump sum bonus in recognition of productivity improvements is attached to the offer. Both sides recognise the substantial nature of such "improve-

ments", which have come from staff reductions of about 1,000 in the last year and nearly 4,000 since privatisation.

Although the government does indeed still own 40 per cent of PowerGen it has maintained a consistent refusal to take an active role in the company's affairs (even when the coal crisis may have justified it). I have no hesitation in defending the freedom of both sides in the negotiations to reach an agreement tailored to PowerGen's circumstances.

Tony Cooper, general secretary, Electrical Power Engineers' Association, Plasman House, Cogmore Lane, Chertsey, Surrey KT16 9JS

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FINANCIAL TIMES

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Tuesday March 16 1993

German pain postponed

WITH BROAD smiles and much fraternal back-slapping, Germany's political establishment has demonstrated that its famed consensus model lives on. Many observers feared that Chancellor Helmut Kohl's solidarity talks were an excuse for inaction in addressing Germany's mounting fiscal problems. But this week-end's package confounds them by raising income tax 7.5 per cent, through a reintroduced solidarity surcharge from January 1 1995, and by increasing public borrowing for east Germany by some DM60bn. Yet these actions do not solve Germany's problem. For while the agreement brings some clarity to the fiscal muddle, it does so mainly by illuminating the fact that Germany's structural budget deficit is here to stay.

The solidarity pact must be judged first in political terms. The minds of both main political parties have been concentrated by the large falls in their combined vote in the recent Hesse municipal elections. On these terms, the cross-party deal, finalised in 2½ days of fraught negotiations, was an admirable success. Mutual compromises have enabled the government to squeeze from western Germany's federal and state budgets the extra DM110bn it needed to finance transfers to the eastern states in 1993. It also rebalances the division of tax revenues between the federal and *Länder* governments.

Economic fudge

Yet it is unlikely that the Bundesbank's medium-term fiscal fears will be allayed by Mr Kohl's agreement, even if the bank is convinced that falling output and moderating western wage demands justify faster rate cuts now and is therefore prepared to accelerate the slow easing of short-term interest rates that has been under way since last September. Good politics the pact may be, but in economic terms it bears all the hallmarks of an unsatisfactory and misconceived fudge.

Judged as a solution to the problem of sharing the burden of transfers to the east, it is unbalanced, vague and almost certainly insufficient. Almost all of the extra financing will come from higher taxes and increased bor-

rowing, while Germany's fat welfare budget will remain untouched. Half of the modest DM8.2bn in spending cuts comes from concealed tax increases achieved by cutting tax allowances; another DM1.8bn is dubiously expected to come from reduced welfare fraud; and at least DM1bn in spending cuts will come from sources as yet unspecified.

The package is expected to reduce the federal budget deficit to DM63.8bn in 1995, DM7.8bn higher than previously forecast. But the projections are based on the overly optimistic assumption that output will grow by 3 per cent in both 1994 and 1995, despite the higher taxes and long-term interest rates that the package is likely to inflict on west German industry. If the economy recovers at a more realistic 2 per cent a year, then the total 1995 deficit forecast at 4½ per cent of GDP, looks decidedly structural.

Deeper problem

The structural deficit is evidence of a deeper problem. Domestic demand in the east now exceeds eastern production by 87 per cent. But rather than trying to close that gap, the pact merely finds a less-than-satisfactory means of financing it. Productivity in east German manufacturing industry is 70 per cent below that in west Germany and engineering wages already stand at 70 per cent of those in the west. But rather than trying to close the gap between eastern wage costs and productivity, the pact merely finds ways to continue subsidising east Germany's "core" but unprofitable industries.

The sad fact is that German-style consensus, while adept at tinkering with the symptoms, is still failing to solve the underlying problem that is undermining the east German economy – the rapid pace of convergence of wages between the eastern and western *Länder*. And while the government celebrates its success, IG Metall, the engineering union, continues to plan a series of strikes next month in support of a 26 per cent pay rise for those of its eastern members who still have a job. Unless this process is arrested, and the threatened strikes are averted, then Germany's solidarity pact could quickly unravel.

How not to run the BBC

THIS WEEK, the governors of the BBC are in an atmosphere of crisis. Following revelations about the unseemly pay contract of the corporation's director-general, there are widespread calls for resignations and dismissals. The board is badly split.

Déjà vu. In 1987, one director-general was dismissed in controversial circumstances. Four years later, a second's desire for a further term of office divided the board and resulted in a two-year fudge in which the BBC was hobbled with a director-general and a director-general-in-waiting, Mr John Birt. It is now Mr Birt's future which sets a governor against governor.

Given that the single most important managerial task of the governors is to select and then monitor the progress of the director-general, such an accident-prone system cannot be said to be working well.

The problem is that the governors do not know what they are there for. A miscellany of academics, artists, Whitehall types and business executives, the law says they are responsible for ensuring that parliament's wishes, enshrined in the corporation's constitution, are fulfilled. In its clearest sense, their mission is to regulate, standing between politicians and broadcasters. In practice, governors make their influence felt by controlling the most senior appointments and discussing any issue which takes their fancy.

Blurred boundaries

This has meant that the governors do not do much well. Their ability to supervise standards of taste has been judged so defective that other bodies have entered the vacuum. Individual governors openly differ on whether they should exercise the right to view programmes before transmission.

On the managerial front, they have tried to work more closely with management, holding more joint meetings. It is not surprising that in this atmosphere of blurred boundaries, nobody has been precise about who should do what. Do all top appointments have to be by open competition? Some think so, but many have not been. Who determines the terms and conditions of senior managers? The

whole board? A remuneration sub-committee? Whoever the chairman happens to invite in for a drink?

It is against this background that the affair of Mr Birt's contract must be judged. That he made a serious misjudgment in believing he could be the corporation's first freelance director-general is beyond doubt. To the ordinary citizen, these accountability fictions, with their unidirectional secretaries and glamorous-sounding expense accounts, are a fiddle.

Not indispensable

The mitigating circumstances are that his tax arrangements were legal, approved by the Inland Revenue and accepted by his employer. Mr Birt has apologised, put his arrangements in order and should now be allowed to get on with the job. He is not indispensable to the future of the BBC, but it is primarily his vision which informs the case that the BBC has made for a new royal charter. Most who wish to see him ousted would prefer a more comfortable notion of the BBC's future, but this is fantasy. The real question about Mr Birt's vision is whether it is radical enough.

The other reputation on the line is that of Mr Marmaduke Hussey, chairman of the board of governors. Mr Hussey's achievement has been to find Mr Birt and to back him, against much mutiny, in the pursuit of a more efficient and accountable BBC. He has helped put the BBC in a stronger political position than it has enjoyed for decades.

But Mr Hussey is a schemer, a Fleet Street alley cat. He has alternately charmed, huffed and excluded governors unsympathetic to his purpose. This is not a style appropriate to the reformed mode of governance the BBC itself envisaged in its recent response to the government's green paper. That document calls for less meddling, clear structures, defined reporting lines, consistently monitored standards and effective mechanisms for complaint.

Mr Hussey has performed a public service in kicking the BBC towards a more realistic view of its future. The government should now ask him to prepare, in an orderly fashion, to hand over to a successor.

The French state's industrial frontiers have slowly, sometimes painfully, receded over the past decade as economic deregulation has started to take root in what has long been one of Europe's most interventionist countries.

The conservative team expected to succeed the Socialist government after the general election at the end of this month is preparing to surrender yet more of the state's role as a manager and owner of industry. Just how far the alliance of the Gaullist RPR and centre-right UDF is prepared to let go will set the tone for French industry policy for the life of the next government.

Conservative advisers are putting the finishing touches to an ambitious privatisation programme to raise up to FF200bn (£25.1bn) over four to five years according to the most optimistic opposition plans. It will mark a sharp acceleration of the partial privatisations under the Socialists, worth FF16bn last year, and aims to complete the privatisations started by the conservatives during their last government from 1986 to 1988, when FF120bn worth of state companies were sold.

All state-owned banks, insurers and industrial companies will be on the block, promises the opposition. The candidates for the first round of sales include Elf Aquitaine, the oil group; Rhône-Poulenc, the chemicals company; and Banque Nationale de Paris, the second-largest state-owned bank. All three of these groups are already partly privatised and performing well. One of the three big state insurers, UAP, AGF or GAN, is also expected in the initial batch of sales.

The government will choose the rest of the disposals from the uncompleted privatisations on its 1986 list of 65 companies, of which 29 were sold. The list includes stars such as Pechiney in aluminium and packaging, which is already quoted on the stock market. But there are already some industrial headaches like Bull, the home-making computer group which last week announced a FF4.7bn loss for 1992, and Thomson, the struggling electronics company.

There will also, say opposition advisers, be one important new candidate not on the 1986 list: Renault, the carmaker, which three years ago started on the road to privatisation by exchanging minority stakes with Volvo, the Swedish automotive group. The privatisation of Renault would be an important step in the decline of interventionism because the group has been used as a crucible of industrial and social policy experiments by successive postwar governments.

"We have no doubt that Renault will come on to the market, perhaps after the first wave of new privatisations. It is highly symbolic and also happens to be one of the state's best assets," says Mr Willy Douin, president of CS First Boston France, the Paris branch of the Swiss merchant bank.

The actual candidates will be published in a privatisation law, to be presented to the national assembly in the spring. Partial privatisations

French opposition leaders will be tempted to celebrate their likely election victory at the end of this month by purging state industry of the company chairman most loyal to the Socialists.

It might seem curious that this is possible in a modern and competitive European economy, yet there is pressure on both sides of the right-wing RPR-UDF alliance to put supporters of the new government at the head of state companies before they are privatised.

There is also the urge for revenge. The conservatives have not forgotten the wholesale management changes staged by the Socialists during the nationalisations after their 1981 election victory. Heads have rolled, though not so many after each change of power since then.

The prospect is said to have

Assault on the state's frontiers

The privatisation of French industry will accelerate sharply if, as expected, the conservative parties form the next government, writes William Dawkins

of state utilities such as France Télécom and Electricité de France are also under study, although these are thought to be a few years off.

The threat of recession facing the French economy means this round of privatisations will be more difficult at first than the last round of wholesale sell-offs. This took place over an economically euphoric 14 months, ended by the 1987 stock market crash and the conservatives' political defeat.

Yet the signs are that the new sell-off candidates could pass more completely into the private sector than the last lot. In many cases, the former right-wing government managed to keep some control of privatised companies by selling stakes in them to so-called *noyaux durs* or hard cores of companies owned by Gaullist RPR party supporters.

The Socialists tried to dismantle these groups by enlarging the ownership of state companies, although they maintain the principle that some kind of national control is needed. The Socialist-appointed chairman of Renault, Mr Louis Schweitzer, for example, argues that his company must remain majority French-controlled, if privatised.

But at this time, it will be harder to press-gang *noyaux durs* into action. Corporate France has less spare cash in these tough economic times than in the late 1980s. The growth in foreign investment in French companies means their boards now have to concentrate more on increasing earnings than keeping on the right side of their political friends. Some *noyaux durs* members received a poor return on their investments in the last round of privatisations – both in profits and power – and so are cautious over being drawn in again.

Big French corporate investors in new privatisations, therefore, will be motivated more by industrial, rather than political logic. One example is Alcatel Alsthom, the privatised telecommunications and engineering group, whose chairman, Mr Pierre Suard, is close to the RPR. He says he is interested in taking a stake in France Télécom, the state telecommunications operator.

Other privatisation candidates might use this opportunity to speed up their strategy of seeking share exchanges with foreign partners, like BNP and its existing German partner, Dresdner Bank.

Prepared for a purge

brought decision-making in some state groups to a near halt, for fear that a new chairman might follow a different strategy.

Foreign partners are worried, notably Volvo, which is keeping its fingers crossed that there will be no change in the management of Renault, the government-owned carmaker in which it holds a 30 per cent stake.

Mr Edouard Balladur, tipped as a leading prime ministerial candidate for the conservative RPR, has told his team that he does not want a witch-hunt. He is sensitive to the fact that French state industry's foreign competitors suffer no such political risk.

Whether moderates like him get

French privatisation: stepping up sales

Stock performance of French privatised companies				
	Date of privatisation	Share price at privatisation	Current share price	Absolute performance
Saint Gobain	Nov 1986	310	541	74.5%
Alcatel-Alsthom	April 1987	323	656	103.1%
Hevesa	May 1987	187	471	151.9%
Société Générale	Jun 1987	407	654	60.7%
Suez	Sept/Nov 1987	261	305	16.9%
Paris CAC Générale	Nov '86	353.6	529.5	37.8%

Source: CS First Boston, France

Some of the leading companies proposed for privatisation by 1986-1988 right wing government but not fully sold yet

- Bull
- Pechiney
- Rhône-Poulenc
- Elf Aquitaine
- Thomson
- L'Union des assurances de Paris
- Groupe des Assurances générales de France
- Banque nationale de Paris
- Crédit Lyonnais

Economic weight of the public sector as a % of total economy

Based on employee numbers, value added and investments



Source: Centre Européen de l'Entreprise Publique

Despite the problems, few doubt that the privatisations will get off the ground, cautiously at first because of the fragility of the Paris stock market's recovery since the beginning of the year, but faster as the economy picks up.

The programme is likely to be successful for two reasons. First, the political will is there. The new government is likely to get a record majority in the national assembly and should be able to impose its policies with ease.

Second, there is more than enough pent-up demand. France's top industrial companies are far less represented on the Paris stock exchange than their competitors are

on their domestic markets. The capitalisation of the Paris stock market is equivalent to just 30 per cent of gross domestic product, less than half the 65 per cent of US GDP represented by US stock markets, estimates CS First Boston.

On the political front, Mr Edouard Balladur, who as former finance minister masterminded the last round of right-wing privatisations and might be the next prime minister, believes the process is essential.

He argues that it will make it easier for former state sector companies to raise capital independently of the cash-strapped state; that it will encourage more efficient

management; and that the proceeds from the programme will help the government fund the tax cuts needed to stimulate France's flagging economy.

Privatisation is prominent on the joint RPR-UDF election manifesto, where it commands more of a consensus among an otherwise divided coalition than other economic matters, such as monetary policy. This is no surprise, for Mr Balladur's sell-offs were one of the few real successes of the last conservative government.

On the demand side, the opposition has several reasons to be optimistic. First there is the FF1,300bn of mainly private investors' savings now sitting in lightly taxed Sicav money market funds.

A lot of this cash is likely to be seeking a new home in future, because the ceiling below which Sicav disposals are tax-free was reduced in January from FF17,000 to FF15,000 a year. For the first time in three years, the total invested in Sicavs has started to fall, also helped by the launch of a tax-exempt equity savings plan. A fall in interest rates, plus the extra tax breaks for long-term private investments promised by the opposition, would push more of French households' savings into equities.

Foreign institutional investors will be another big source of demand, if they continue to increase their exposure to the French stock market.

According to the Banque de France, 28 per cent of French publicly quoted shares are now in foreign hands, up from 21 per cent two years ago. If foreign investors believe, as most analysts in Paris do, that the opposition will be able to hold the line on the "franc fort" policy, they will have a clear interest in buying more shares in well-managed privatisations on the brink of recovery.

What is unclear is just how much the new government will be able to curb the temptation to meddle in its newly privatised companies. "French industry is still run by members of a small elite who move in and out of industry and politics," explains a US securities analyst.

He adds: "They need to purge the system, because it is so alien to what their competitors are doing, but they are not ready to let go."

Here the opposition is divided both on generational lines and between the free-market UDF and the more interventionist RPR. Some of the older leaders still believe in a degree of state intervention, while young reformers, among them Mr Alain Madelin, former UDF industry minister, are strong upholders of free markets.

An important test of whether or not the urge to intervene has receded will be just how many Socialist-appointed public sector company chairmen the conservatives decide to throw out after the election. At least half a dozen bosses of state companies will be particularly anxious about the first few weeks of the next French government.

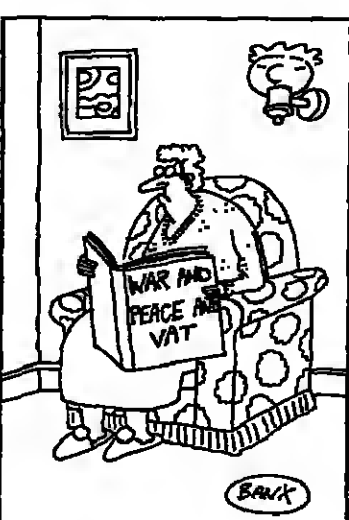
right a convenient opportunity to hand this important job to a supporter.

Shadows are hanging over the futures of Mr Gilles Ménage, a former chief of staff to Mr Mitterrand, who now runs Electricité de France, and over Mr Jean Peyrelevade, chairman of UAP, the biggest state insurer.

Also at risk are Mr Alain Gomez, the Socialist appointee who has run Thomson, the troubled electronics group for the past 11 years, making him the longest-serving chairman of a state-owned group, and Mr Yves Lyon-Caen, chairman of the Crédit National bank and a close colleague of former Socialist prime minister Mr Michel Rocard.

William Dawkins

OBSERVER



two of HSBC's main banks are called Midland, it might even be worth renaming the group Midland Bank International... after a decent interval, of course.

Charity-speak

Some pretty improbable-sounding charities – such as the Solicitors Benevolent Association and the Girls Friendly Society – figure among those in The Henderson Top 1000 charities guide which has just been published by Hemmington Scott.

But there is no disguising the fact that it is increasingly difficult to differentiate big business from

charity when it comes to jargon. One contributor to the guide on "donor base technology" but warns that "cold donor acquisition rates" are slipping below the threshold of commercial viability on first mailing.

Not sure what it means, but no doubt it is all in a good cause.

Twin feats

Not just one, but two feathers in its cap can be claimed by the outplacement consultancy, Coutts, a subsidiary of the DC Gardner Group.

The first – helping to find new jobs for about 1,400 ex-employees of the Bank of Credit and Commerce International – is a fair feat in itself, considering that no less than former CIA director Robert Gates publicly rechristened BCCI "The Bank of Crooks and Criminals International".

But the second achievement is surely greater. According to DC Gardner's chairman, Sir Kit McMahon, Coutts has been paid in full for the work by Abu Dhabi's Sheikh Zayed bin Sultan al-Nahyan – which is more than can be claimed by most of BCCI's distinguished creditors.

Liter-ally

Not content with one begging letter, the Turks have just come up with five in the hope of persuading the rest of the former

Soviet Union's quintet of Turkic states to join Azerbaijan and Turkmenistan in abandoning Cyrillic notation in favour of Roman script.

Turkey's decision to increase the alphabet by the five new letters is a historic gesture. It is the first such change since the western reforms of Mustafa Kemal Atatürk in 1928 when the Turks themselves adopted the Roman script in place of the Arabic used under the Ottomans.

The additions, agreed after a four-day conference in Ankara, represent sounds already voiced in the dialect of Turkish used in the republics.

Besides an additional *e* (written as a backwards *é*), the letters are a *w*, an *z*, a *q*, and an *n* with the reverse of a French circumflex over the top.

As an added incentive to join the alphabetical alliance, Turkey is offering the republics printing machinery and substantial technical assistance.

Funereal humour

Nice to see that company undertakers are developing a sense of humour at last.

An advert in the Financial Times seeking potential buyers of Aprilwood Furnishings, makers of three-piece suits, says that it is "an increasingly well known brand, supported by excessive advertising during the last 12 months..."



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FINANCIAL TIMES

Tuesday March 16 1993

brother
MICROWAVES
KNITTING MACHINES INDUSTRIAL AND
DOMESTIC SEWING MACHINES

North Korea heightens tension with threat of war 'at any time'

By John Burton in Seoul
and Our Foreign Staff

NORTH KOREA, facing strong international condemnation over its abrupt withdrawal from the nuclear Non-Proliferation treaty, yesterday heightened the tension by declaring that war could break out "at any time".

The new South Korean government of President Kim Young-sam, however, appeared to warn western allies not to react rashly to North Korea's decision to pull out of the NPT and drive Pyongyang into deeper isolation which could provoke a military response.

Mr Ri Tcheul, North Korea ambassador to the UN in Geneva, said Pyongyang had stopped granting visas to foreigners. He

claimed that in the current US-South Korean "Team Spirit" military exercises, bullets and shells were being fired "towards our side".

"If we respond to it, it will mean a war and this war cannot but be an all-out war," Mr Ri said. "That is why we are stressing that a hair trigger situation has been created which could lead to an outbreak of war at any time."

In Seoul, Mr Kim said: "We never want North Korea to be isolated internationally nor do we want to inflict suffering on them." He emphasised that a diplomatic solution should be found.

Mr Han Sung-joo, South Korea's foreign minister, told the National Assembly: "We must prevent an armed conflict on the

Korean peninsula at all costs... We don't want the situation to go to extremes due to the North Korean step."

Mr Han said South Korea was seeking the help of China, which still has links with North Korea, to persuade Pyongyang to reverse its decision before the issue reaches the UN Security Council. Beijing has indicated that it is displeased by the North Korean action.

In Geneva, Mr Vladimir Petrovsky, director-general of the United Nations European headquarters, condemned North Korea's withdrawal from the NPT. "This act does not correspond to the will of the international community," he said.

In a meeting with Mr Ri, he told the ambassador that it was

in the interests of North Korea "to strengthen the non-proliferation treaty rather than to weaken it". The North Korean government "would be responsible for all the consequences of its decision". South Korean state television reported that Seoul would ask the US to delay pulling out the aircraft carrier Independence or US troops deployed from Okinawa, Japan, for Team Spirit. The defence ministry would not confirm the report.

North Korean authorities have ordered a dusk-to-dawn blackout and put the nation on high alert, according to a foreign resident of Pyongyang contacted by Reuters. He said the government had barred foreigners from entering the country and would let foreign residents leave but not return.

Yeltsin claims his opponents want to restore communism

By John Lloyd in Moscow and Our Foreign Staff

MR BORIS YELTSIN, the Russian president, yesterday accused his parliamentary opponents of seeking to restore communist rule. His aides signalled that he planned to secure popular support in a plebiscite under international supervision.

In a statement issued by Mr Vyacheslav Kostikov, his press secretary, Mr Yeltsin accused the Congress of Peoples' Deputies of denying the people the right to a referendum and of "violating the constitution". Its decisions during last week's four-day session were "an attempt to...return the levers of government to the communist nomenclatura".

Mr Yeltsin would give his response in the next few days, Mr Kostikov said, adding in a later interview: "I think that Boris Nikolayevich intends to act as decisively as he showed himself capable of doing in the fatal days

of August 1991" - a reference to the failed communist putsch against Mikhail Gorbachev.

The latest clashes between the president and his hardline opponents in parliament came as western leaders repeated their support for Mr Yeltsin.

German chancellor Helmut Kohl warned that not only Mr Yeltsin's domestic reforms but also the entire process of peaceful international co-operation was threatened by the political backlash in Moscow. A similar message is expected to be delivered by French president François Mitterrand when he arrives in Moscow on an official visit today.

The expressions of international concern follow a weekend meeting of officials from the Group of Seven leading industrialised nations in Hong Kong. However, beyond considering more effective ways of targeting their aid for Russia, there is little sign that western governments are any closer to agreeing increased

financial assistance. Mr Yeltsin's tactic now appears to consist of proceeding to a plebiscite on who governs the country. Mr Yegor Gaidar, former prime minister and now chief economic adviser to the president, said yesterday Mr Yeltsin could constitutionally hold such a plebiscite.

Mr Gaidar said "probably it would be a good idea to hold such a plebiscite involving observers from the international community".

Mr Yeltsin's opponents, by contrast, insist that Congress is the constitutional authority. Mr Konstantin Ziobin, the spokesman for the Russian parliament, yesterday rejected the president's allegations and said that the "democratic gains" made by the Congress last week "significantly reduce the possibilities of legal cover for the destructive activities" of Mr Yeltsin's advisers.

Compromise fades away, Page 2
Kohl speaks out, Page 2

Hoechst blast raises concern over safety

By David Waller in Frankfurt

ONE person died and another suffered third degree burns yesterday after an explosion and fire at Hoechst's main plant near Frankfurt.

The blast was the sixth accident Hoechst has suffered in less than a month - the first involving the loss of life - and immediately prompted calls from regional and national politicians for tougher safety controls in the German chemicals sector.

The explosion occurred at 7.44am when two men were preparing a section of plant for repairs. Hoechst said the cause of the accident was not known.

The explosion comes less than a month after Hoechst accidentally released 10 tonnes of chemicals - some potentially toxic - from its Griesheim plant. The chemicals fell on the Frankfurt suburb of Schwannheim on February 22.

Although no one was hurt on that occasion, dozens of residents visited doctors after the leak and there was an expensive and high-profile clean-up campaign.

Last Friday Hoechst inadvertently discharged 100 litres of a poisonous solution into the Rhine from a plant in nearby Wiesbaden.

Hoechst said yesterday it regretted the loss of life in the latest accident and would co-operate with investigations launched by the local police and legal officials from the state of Hesse.

Mrs Ursula Tober, a Hoechst press officer, said the company was saddened and bewildered by the series of accidents. "We simply cannot explain it to ourselves why all this has happened all at once," she said.

A cloud that floated from the plant over the Frankfurt suburb of Sindlingen yesterday was not dangerous to the public and dispersed quickly after the accident, Hoechst said.

Mr Klaus Töpfer, Germany's federal minister for the environment, yesterday vowed to intensify pressure on the chemicals industry to improve safety standards. Hoechst had already begun a comprehensive examination of its safety and other procedures after the first accident last month.

Approval for USAir deal

Continued from Page 1

disregard it while at the same time insisting that Australia and Japan abide by the provisions of their bilateral aviation treaties with Washington.

"We contend that the current US-UK bilateral agreement, negotiated by an earlier administration, does not offer US airlines sufficient access to British and European markets."

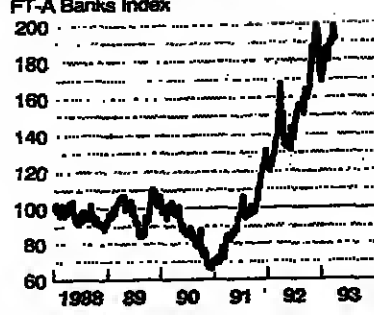
"Even as we honour the existing agreement, the administration will pursue a new agreement that incorporates open skies provisions," he said.

THE LEX COLUMN Profits begin at home

FT-SE Index: 2922.4 (+6.5)

HSBC Holdings

Share price relative to the FT-A Banks Index



dislodging some loose institutional holders of Owners' shares. It would then be able to defer further bids with its large blocking stake. Wavering shareholders should reject such tactics. The Airports' offer still looks the best alternative.

Sadly, this tale confirms how some bids have degenerated into back-room deals between companies and fund managers. Small shareholders might be forgiven for feeling cheated.

English China Clays

Having abandoned its adventure in housebuilding, English China Clays now finds itself beleaguered. Selling kaolin to paper makers will remain unrewarding until demand for the end product catches up with capacity.

Given the cyclical downturn in Europe, that point may not be reached until well into 1994. Meanwhile, ECC is in no position to reverse the downward pressure on margins. The move into Pacific markets and an upswing in the US should offset the worst of the damage. The 1990 acquisition of Georgia Kaolin now looks well-timed. But without further steps in that direction, the growth prospects are far from obvious.

ECC could usefully raise as much as £150m by disposals from its land bank and redeploy the funds where growth prospects are better. Given the groggy UK housing market, though, it would not do to count on an early realisation. A debt-funded acquisition would be another way forward. Having replaced most of its auction-market preference shares with last year's rights issue, ECC's balance sheet is strong. The worry is that higher inter-

est charges would eat into free cash flow. That might undermine the secure 5.5 per cent yield on which the shares now depend.

Olivetti

Olivetti's rights issue has the look of a company sticking its finger in the dyke. The £900bn raised has to be set against a declared loss last year of £650bn and provisions for restructuring over the last three years of £700bn. While the issue will wipe out net debt, computer prices are still falling, so further cost-cutting will surely be necessary. Even Olivetti has tacitly accepted that investors may not be keen by pitching the issue at the deepest discount legally allowed.

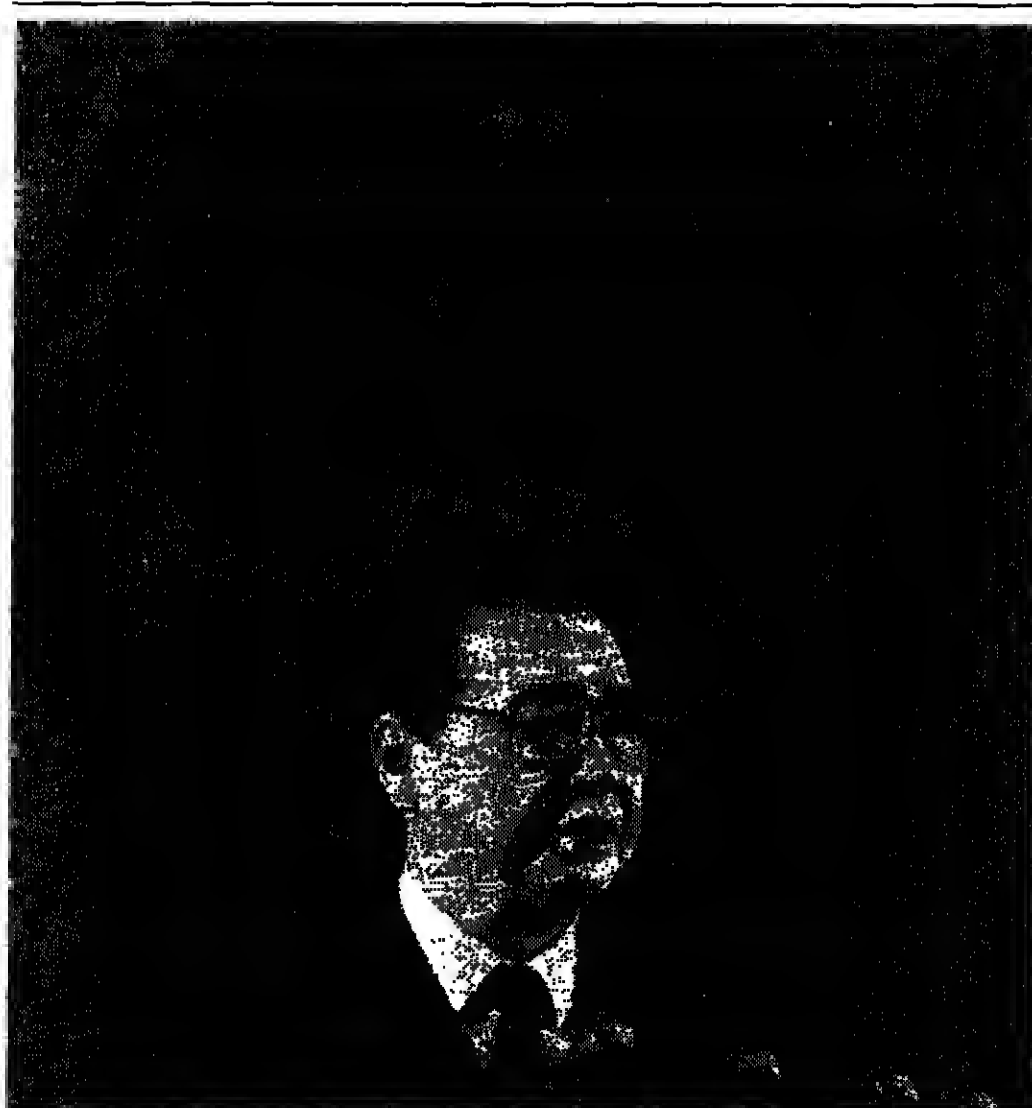
Larger and more august companies than Olivetti have been humbled by the collapse in computer manufacturing margins. While further price falls may be limited as worldwide capacity is cut, it is hard to see European companies becoming the lowest cost producers against Far Eastern competition. And with most of the value being added at the chip level by US firms, assemblers such as Olivetti will struggle. The future of European production is thus far from certain. Even Olivetti's alliance with DEC may not give it much muscle in the expanding Risc chip market. DEC, meanwhile, can contemplate its purchase of a 4 per cent stake last summer at £1,000 per share, which it can now add to by taking up its rights at £1,000 each.

British Airways

BA is delighted that the first \$300m stage of its investment in USAir has been temporarily approved. In truth, the US transportation secretary had no alternative under existing aviation agreements. The crucial question is what follows?

Mr Federico Peña will press hard for a revised bilateral aviation agreement with the UK government giving US carriers greater access to the European market. BA will then face a tricky calculation whether to cede some Heathrow slots in the hope of receiving US regulatory approval for the next two phases of its link up with USAir. These stages would bring the real operational rewards.

But such considerations may be academic. In its current mood, the US Congress would bristle at approving any agreement allowing BA fuller access to the domestic market no matter what Mr Peña may agree.



Chinese premier Li Peng: British Hong Kong governor Chris Patten had acted 'perfidiously'

Hong Kong stocks fall 5%

Continued from Page 1

was not one we could accept". Mr Li told some 3,000 delegates at the National People's Congress that Mr Patten's democratic reform proposals ran completely counter to Britain's "commitment" to bring Hong Kong's system into line with the Chinese-controlled "Special Administrative Region" after 1997. "The British government", he added, "shall be held exclusively respon-

sible for all serious consequences arising from its latest action."

Mr Li described as a "sacred right" China's resumption of sovereignty over Hong Kong in 1997 which "shall not be interfered with and sabotaged in any way". But he also observed: "We hope for co-operation, not confrontation."

Hong Kong politicians, stockbrokers and political analysts, noted that he had not ruled out talks.

Mrs Selina Chow, a senior member of Hong Kong's conservative political grouping known as the Co-operative Resources Centre, said: "It seems that there is room for further discussion."

However, it emerged yesterday that a planned meeting of the Sino-British Joint Liaison Group for this month was unlikely to proceed. A Foreign Office official said the two sides had not discussed an agenda for the meeting.

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		Brussels	S	17	63	Geneva	S	15	59	Malaga	S	18	64	Oulu	Fg	1	34
		Budapest	F	7	45	Glasgow	R	9	48	Manila	S	33	91	Paris	S	17	63
		Buenos Aires	F	18	61	Helsinki	S	11	52	Melbourne	S	25	77	Prague	S	11	52
		Cairo	F	26	79	Hong Kong	S	27	81	Mexico City	F	23	73	Riyadh	C	0	32
		Cape Town	F	16	61	Hong Kong	S	27	81	Montevideo	F	23	73	Rio de Janeiro	F	23	73
		Casablanca	F	16	61	Interlaken	S	11	52	Moscow	F	13	55	Rome	S	15	59
		Chicago	F	17	63	Interlaken	S	11	52	Montreal	S	23	73	Salzburg	S	11	52
		Copenhagen	S	11	52	Interlaken	S	11	52	Osaka	S	23	73	Seoul	S	11	52
		Dublin	F	13	55	Jakarta	R	32	90	Munich	S	14	57	Seoul	S	12	54
		Edinburgh	C	10	50	Johnsborough	F	26	79	Nairobi	F	27	81	Singapore	S	30	86
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		Moscow	F	13	55	Norfolk	F	15	59	Norfolk	F	15	59	Winnipeg	S	-14	7
		Montreal	S	23	73	Norfolk	F	15	59	Norfolk	F	15	59	Winnipeg	S	-14	7
		Moscow	F	13	55	Norfolk	F	15	59	Norfolk	F	15	59	Winnipeg	S	-14	7
		Montreal	S	23	73	Norfolk	F	15	59	Norfolk	F	15	59	Winnipeg	S	-14	7
		Moscow	F	13	55	Norfolk	F	15	59	Norfolk	F	15	59	Winnipeg	S	-14	7
		Montreal	S	23	73	Norfolk	F	15	59	Norfolk	F	15	59	Winnipeg	S	-14	7
		Moscow	F	13	55	Norfolk	F	15	59	Norfolk	F	15	59	Winnipeg	S	-14	7
		Montreal	S	23	73	Norfolk	F	15	59	Norfolk	F	15	59	Winnipeg	S	-14	7
		Moscow	F	13	55	Norfolk	F	15	59	Norfolk	F	15	59	Winnipeg	S	-14	7
</																	

Forte Crest announce the arrival of Business Class.

Business Class has certainly taken off at Forte Crest. It covers a full range of benefits and services. In fact you won't find a better value four star hotel in the UK. Because if you're not completely satisfied, we'll pay for your next night with us. It's what we

call our Satisfaction Guarantee. And that's a real departure from the competition. To experience our Business

**FORTE
CREST**

Class, call your travel agent.

In a business class of its own

INTERNATIONAL COMPANIES AND FINANCE

Compagnie BTP agrees to emergency rescue plan

By Alice Rawsthorn in Paris

COMPAGNIE BTP, the French bank that specialises in finance for the property and building sectors, has agreed an emergency rescue package to cut costs and restructure its finances.

The plan includes a radical reduction of 35 per cent in overheads, chiefly by shedding 220 staff. BTP, which has been badly affected by the downturn in the French property market, is also trying to salvage its finances by transferring FF3.2bn (\$560m) of property loans to a new company.

The new company will be controlled by BTP's existing

shareholders, which include a number of prominent names in French finance and construction, including Crédit Lyonnais and Crédit National, the banks, and the Bouygues building group.

The BTP board, led by Mr Jean Bayle, chairman, has been trying to finalise negotiations since last autumn. BTP is the latest in a long line of French financial groups to have fallen into financial difficulty because of the precarious state of the property market.

Crédit Lyonnais, the state-controlled bank which owns 4.1 per cent of BTP, last week disclosed that it produced its

worst results for 20 years in 1992, partly because of its property problems. Other banks, including Paribas and Indusuez, have also been hit, as well as the French insurance companies.

However, BTP is one of the most vulnerable institutions given that it specialises in property. It fell into the red with a net loss of around FF720m last year, after making provisions of FF600m, from net profits of FF62m in 1991.

The company said it hoped to break even this year, following the rescue plan, and to return to "normal profit levels" in 1994.

Avesta Sheffield doubles loss, holds payout

By Christopher Brown-Humes in Stockholm

AVESTA SHEFFIELD, which has become Europe's largest stainless steel group following the recent merger of Avesta and British Steel's stainless steel operations, yesterday disclosed a SKr544m (\$73.35m) loss, after financial items, for 1992.

Week market conditions were aggravated by merger expenses and the costs of starting up a new mill, the company said.

The deficit was more than double 1991's SKr248m loss and led the company to scrap its dividend after a SKr1 per share payout in 1991.

The most important reason for the negative result is that product prices have fallen more than raw material prices," the group said. It blamed industry over-capacity and increased nickel exports from the former eastern bloc for the fall in prices, while noting that demand was restrained by recession in many important markets.

In the current year so increase in turnover of about 5 per cent is forecast, while prices are expected to rise both absolutely and relative to turnover, said the preliminary report.

both the other main divisions, to DKr2.94bn from DKr3.35bn in Europe and Brazil and to DKr3.1bn from DKr3.21bn in North America.

Operating profits in Europe and Brazil were down to DKr159m from DKr177m, and in North America to DKr127m from DKr133m.

Sales amounted to SKr7.59bn, compared with SKr7.39bn in 1991, with SKr642m generated by British Steel's stainless operations in the two months following the completion of the merger on November 2. Excluding this contribution, sales were down 9 per cent.

The overall loss would have been lower but for SKr171m adverse movement in inventory prices, SKr50m in merger costs, and SKr101m related to the start-up of the group's hot strip rolling mill in Avesta.

The group originally expected the merger to produce SKr400m of annual cost savings from 1995, but now says it expects the benefits to be greater and to take effect as early as 1993.

British Steel owns 40 per cent of the group.

Deutsche Babcock cuts forecast

By Ariane Genillard in Bonn

DEUTSCHE BABCOCK, the plant and engineering group, posted a 22 per cent increase in sales in the five months to the end of February but warned that overall profits for the year would be lower than expected.

Sales in the five months rose to DM2.5bn (\$1.5bn), with the order backlog standing at DM2.8bn, a 22.3 per cent rise over the same period the previous year.

But Mr Heyo Schmiedeknecht, chief executive, warned that profit forecasts for the current year, which ends on

September 30, would have to be "revised downward". He said profits would be "closer to DM30m". Earlier forecasts said profits could be as high as DM60m.

Mr Schmiedeknecht blamed the general recession in the industrial machines sector. He also said that core businesses in environmental technology continued to be in the red.

Net profits for the group for the 1992 fiscal year stood at DM76m, however, up from DM32m the previous year. Sales for the same period reached DM7.6bn against

DM7.2bn the year before. Outstanding orders were higher than the previous year, standing at DM7.1bn against DM6.6bn. The company said it had won a contract worth DM240m to build a coal-fired plant in China.

The company said it still planned to float three subsidiaries on the German stock market this year. The plan was announced last year but had to be delayed because of the stock market turmoil, a company spokesman said.

The three subsidiaries are Balcke-Dürr, Babcock-BGH and Schumag, specialists in

mechanical engineering, plant and industrial technology.

The company will also pay a preferred dividend this year, but will omit to pay on common shares. Holders of preferred shares will receive DM3 a share, or three times the DM3 a share which was last paid out in 1988.

The company said it intended to turn 1.2m preferred shares into common stock this year and expected to pay a DM10 dividend for the fiscal year ending September 30 1994. The plans were proposed to its shareholders' meeting on April 5.

Senior managers stage walkout at Baring

By Richard Waters in London

MR CHRISTOPHER Heath, the man who built Baring Securities into one of the UK's most successful securities houses in the late 1980s, yesterday resigned along with a large part of his senior management team after a policy dispute over the company's future.

Mr Heath and his team are believed to have pushed for Baring to expand its securities and derivatives business, in a move that could have led the group to sell a stake to another bank.

Mr Andrew Tuckey, Baring's deputy chairman, said no spe-

cific proposals had been put to the board, but added: "None of these initiatives have any appeal to us, because we have neither the capital nor the inclination" to expand the business.

The move comes six months after Baring, one of the UK's oldest merchant banking groups, announced that its securities arm had plunged into loss in the first half of 1992, cutting group profits by more than a half to £11.8m.

More than 100 jobs were shed at that stage, and yesterday's departures raise the prospect of further cutbacks in the securities arm and its 80-strong derivatives unit.

Mr Tuckey said that the parting had been amicable and that Mr Heath, once the UK's highest-paid director, would remain as a consultant to the group.

Others directors to depart were Mr Ian Martin, head of derivatives, and Mr Andrew Baylis, head of European operations, while Jim Reed, head of New York, and Vanessa Gibson have also left the Baring Securities board.

One of the executives who stepped down said that discussions over the future of the company, under way since last September, had come to a head last weekend: "One route

would have been more exciting and expansionist - and, yes, might have required more capital and an extra partner. The other was more consolidating. At the end of the day, it's very difficult to back something you don't agree with."

Two other Baring Securities directors, Mr Andrew Fraser and Mr Diarmuid Kelly, have been made deputy chairmen of the company. Mr Peter North, put in by Barings as chief operating officer last autumn, takes over as chief executive.

Mr Tuckey said that, while the securities company would not be integrated with the bank, the two operations would move closer together.

ISS ahead despite sales decline

By Hilary Barnes in Copenhagen

ISS, the international industrial cleaning group, reported a 9 per cent increase in net profits to DKr266m (\$41.49m) in 1992 from DKr244m last year. Pre-tax profits were up by 15 per cent to DKr374m from DKr323m.

Sales were down to DKr11.35bn from DKr11.8bn, due to divestments, adverse foreign exchange developments and difficult trading

conditions in Sweden and Brazil.

Earnings per share increased to DKr61 from DKr56. An unchanged DKr10 per share dividend was proposed.

The board also proposed a scrip issue of one new for five old shares and a share split by which shares of DKr100 face value will be split into five shares of DKr20 each.

Sales increased in Scandinavia to DKr5.07bn from DKr4.98bn, but operating profit slipped to DKr283m from DKr306m. Sales were down in

both the other main divisions, to DKr2.94bn from DKr3.35bn in Europe and Brazil and to DKr3.1bn from DKr3.21bn in North America.

Operating profits in Europe and Brazil were down to DKr159m from DKr177m, and in North America to DKr127m from DKr133m.

In the current year so increase in turnover of about 5 per cent is forecast, while prices are expected to rise both absolutely and relative to turnover, said the preliminary report.

COMPANY NEWS IN BRIEF

PIZZA HUT International has formed a 50-50 joint venture in France with the pizza delivery business Spizza 30, Reuter reports from Paris.

Pizza Hut said the venture, which is subject to French government approval, would cover more than 70 outlets and represent annual turnover of FF350m (\$62.37m). Pizza Hut International has 17 wholly-owned restaurants in France.

● **POKKER**, the Dutch aircraft maker, said it was deferring publication of its 1992 results until April 2, pending official confirmation that the takeover by Deutsche Aerospace is going ahead. Reuter reports from Amsterdam.

Fokker had originally slated results for March 18.

The company, hard hit by the slump in orders for new airliners, is expected to announce in the next week or so a big cutback in production and jobs.

● **RHEINMETALL**, Berlin is taking a 63 per cent stake in Preh-Werke, the electronics group, for an undisclosed sum. Reuter reports from Düsseldorf.

Rheinmetall said the acquisition, which was subject to approval by the federal cartel office, would take effect retroactively from January 1. Preh had sales of some DM220m (\$132.5m) last year. It

would complement Rheinmetall's automobile technology business led by Pierburg.

● **RODAMCO** Property, the investment fund, said its 1992-93 dividend would probably be slightly higher than its net per share earnings of FF3.19. Reuter reports from Rotterdam.

The company expects the dividend to be higher than the 1991/92 dividend of FF3.40.

● **UNION Bank of Finland**, the banking arm of Unifins, may incur up to FM150m (\$24.6m) in credit losses if the debt restructuring of Polar-Yhtymä fails. Reuter reports from Helsinki.

The Swire Group
Cathay Pacific Airways Limited
1992 FINAL RESULTS

Audited Consolidated Results. The profit attributable to shareholders for the year ended 31st December 1992 was US\$395 million, an increase of 1.9%.

	Year ended 31st December 1992 US\$M	1991 US\$M
Turnover	2,988	2,684
Operating profit	464	468
Net finance charges	41	30
Net operating profit	423	438
Share of profits of associated companies	30	22
Profit before taxation	453	460
Taxation	66	79
Profit after taxation	389	381
Minority interests	3	3
Profit attributable to shareholders	385	378
Dividends	154	154
Retained profit for the year transferred to reserves	231	224
Earnings per share	US\$	US\$
	18.5	13.2
	US\$	US\$
Dividends per share	1.34	1.34
Interim	4.04	4.04
Final, recommended	5.38	5.38
Available tonne (kilometres million)	6,466	5,621
	US\$	US\$
Shareholders' funds per share:	0.69	0.52

The United States dollar figures shown are for information only, and are translated from Hong Kong dollars at the rate of exchange of US\$1 HK\$7.80.

Results. 1992 saw no reduction in the problems confronting the aviation industry. A worldwide excess of capacity and the need for many airlines to generate cash regardless of profits produced a continuation of the fare wars first seen in 1991. Many airlines have reported or are expected to report substantial losses in 1992. Against this background our full year's profit of US\$395 million, an increase of 1.9% over 1991 is, I believe, a creditable performance.

Costs continued to be under pressure due partly to large increases in government charges and taxes, and partly to inflation in Hong Kong which continued at a rate higher than worldwide averages. For these reasons we continued with "Operation Better Shape", our major project to increase productivity. We are making progress, but unit cost per available tonne kilometre remained the same as last year primarily due to improved staff productivity.

It would be unrealistic for us to assume the industry's problems will soon vanish. As a result, after revising our medium-term forecasts for traffic levels, we postponed in November the conversion of options into firm orders for three Boeing 747-400s, originally due for delivery in 1994.

But there are opportunities and one of these arises from the forecast that demand for air transportation in Asia-Pacific will grow almost twice as fast as in other major regions of the world during the 1990s. In May, we ordered 11 Boeing 777 aircraft, with options on a further 11. Together, the Boeing 777s and the previously-ordered Airbus A330-300s will allow the Company to replace the TriStars and to increase capacity on regional and medium-haul routes commencing in 1996.

Despite the delays surrounding the replacement aircraft project at Chak Lap Kok, the Company and its subsidiary and associated companies have been and continue to be active in their preparations for the move. Expressions of interest have been made in respect of Hong Kong Aircraft Engineering Company Limited, Cathay Pacific Catering Services (HK) Ltd, and others, and in many cases detailed plans have been drawn up. Discussions continue with the Provisional Airport Authority and we remain optimistic that the new airport will present a great opportunity for the Company although, of course, the time table for its opening remains uncertain.

Operations. We took delivery of four Boeing 747-400 passenger aircraft during the year. One Boeing 747-200 passenger aircraft was converted to a freighter in August. This brought the fleet total to 49 aircraft: 27 Boeing 747 passenger aircraft, four Boeing 747 freighters and 18 TriStars.

An order for three flight simulators for the Boeing 747-400, A330 and Boeing 777 was placed in July.

Average aircraft utilization for the whole fleet was 10.0 hours per day compared with 9.8 hours in 1991.

Financing. The Company's financial position remained strong; at 31st December 1992, total shareholders' funds amounted to US\$1,708 million, an increase of 18.6% over 1991.

Debt equity ratio has been maintained at around the present level throughout this period.

Investment. During the year, we purchased airline catering facilities located in Sydney, Darwin, Vancouver and Toronto.

Final Dividend. The final dividend to be recommended at the Annual General Meeting on 25th May, 1993 amounts to HK\$1.56 per share for the year ended 31st December 1992 which together with the interim dividend of HK\$1.06 per share paid on 4th October, 1992, makes a total dividend for the year of HK\$2.62 per share. This represents a total distribution for the year of HK\$1,203 million.

Shareholders' register will be closed from 17th April to 21st April 1993, both dates inclusive. The final dividend will be payable on 22nd April 1993 to shareholders registered on 21st April 1993.

Prospects. Looking to 1993 the first half at least is likely to see a continuation of the current climate of soft demand and severe price competition within the airline industry. The outlook for our major Japanese market remains depressed but there are some signs that the major economies outside the Asia-Pacific region are finally beginning to emerge from their lengthy recessions.

However, against the background we fear that airlines worldwide will still be subjected to above average increases in government charges and taxes and it is unlikely that inflation at our home base will reduce significantly. The industrial action by the Flight Attendants' Union in January 1993, although now resolved, may well have a significant impact on 1993's results; it is easy to calculate the short-term financial effect but more time is needed to evaluate whether any longer term impact will be felt.

We would expect to have a clearer picture when our interim results are issued but from the information that we have at present, it is likely that 1993 will be a more difficult year than 1992.

The Annual Report for 1992 will be sent to shareholders on 2nd April, 1993.

P D A Sutch
Chairman
Hong Kong, 17th March 1993

CATHAY PACIFIC

U.S. \$400,000,000
Hydro-Québec

Undated
Floating Rate Notes, Series GL
Unconditionally guaranteed as to payment
of principal and interest by
Province de Québec

Interest Rate 3 3/4% per annum
Interest Period 15th March 1993
15th September 1993

Interest Amount per
U.S. \$10,000 Note due
15th September 1993 U.S. \$176.69

Credit Suisse First Boston Limited
Agent

U.S. \$100,000,000

Great Western Financial
Corporation
Floating Rate Notes Due 1995

Interest Rate 5 1/4% per annum
Interest Period 15th March 1993
15th June 1993

Interest Amount per
U.S. \$50,000 Note due
15th June 1993 U.S. \$670.83

Credit Suisse First Boston Limited
Agent

ANZ Bank

Australia and New Zealand
Banking Group Limited
Australian Company Number 005 257 522
(Incorporated with limited liability in the State of Victoria, Australia)

U.S. \$200,000,000

Subordinated Floating Rate Notes due 1998
For the six months 15th March, 1993 to 15th September, 1993 the Notes will carry an interest rate of 3 3/4% per annum with an amount of interest U.S. \$1,991.32 per U.S. \$100,000 denomination, payable on 16th September, 1993.

Listed on the Luxembourg Stock Exchange.

Bankers Trust
Company, London

Agent Bank

Notice of Annual General Meeting of Shareholders

JB CoB
LIQUIBAER

Julius Baer U.S. Dollar Fund Limited
(A company incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN of the Annual General Meeting to be held at Julius Baer Bank and Trust Company Ltd., Kirk House, Grand Cayman, Cayman Islands, on the 30th day of April, 1993 at 10 a.m.

1. To receive and consider, and if thought fit, adopt the accounts presented by the Directors for the year ended 31st December, 1992 and the reports of the Directors and Auditors.

2. To elect the Directors.

3. To elect Mr. Peter Wild to the Board of Directors.

To appoint Auditors and authorize the Directors to do so, and to appoint one or more proxies to attend and vote instead of him.

A proxy need not be a shareholder of the Company.

A shareholder holding bearer shares is entitled to attend and vote. Exercise of these rights is

subject to receipt of the necessary documents from the Company and to the provisions of the Articles of Association.

Copies of the Annual Report (including Audited Accounts) are available for inspection and may be obtained at the registered office of the Company and from the Agents listed below.

There are no service contracts in relation to the Company and any of its Directors and none are proposed.

Participating shares are listed on the London Stock Exchange and participation in the Company are available in the Exact Statistical Service.

15th March, 1993

Secretary and Registrar:
Julius Baer Bank and Trust Company Ltd.,
Kirk House, P.O. Box 1100,
Grand Cayman, Cayman Islands

Agents:
Bank Julius Baer & Co. Ltd.,
Bahnhofstrasse 36, P.O. Box 8010 Zurich,
Switzerland

Stockholms Bank Julius Baer SA Genève
2, boulevard du Théâtre, P.O. Box, 1211 Genève 11
Switzerland

U.S. \$400,000,000

Santander Financial Issuances Limited
(Incorporated in the Cayman Islands with limited liability)

Subordinated Undated Variable Rate Notes
with payment of interest subject to the profits of
and secured by a subordinated debt position
Banco Santander, S.A.
(Incorporated in Spain with limited liability)

Notice is hereby given, that for the interest period from March 16, 1993 to June 16, 1993 the Notes will carry an interest rate of 4.0625% per annum. The amount of interest payable on June 16, 1993 will be U.S. \$2,595.49 per U.S. \$50,000 principal amount of Notes.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank

March 16, 1993

CHASE

ABBEY NATIONAL
BUILDING SOCIETY

£1,000,000,000
Floating Rate Notes Due 1994

Interest rate 4.35%
Interest period from 1st July 1993
to 1st July 1994
Interest Amount per £100,000,000
annuity due 16.9, 1991-92, 142,377

Agent Bank
The Long-Term Credit Bank
of Japan, Limited
Tokyo

DON'T
TRAVEL
WITHOUT
US.

INTERNATIONAL COMPANIES AND FINANCE

Doubts put share price surge on the line for NTT investors

Michiyo Nakamoto and Emiko Terazono look into the background to the turnaround in the Japanese group's stock

IT IS difficult not to regard the rally in the share price of Nippon Telegraph and Telephone, Japan's telecommunications group, with at least a degree of suspicion.

After sliding steadily for the past five years, the country's most widely-held stock has gained 31.5 per cent in just 10 days from ¥616,000 on February 26 to ¥810,000 on March 12. Yesterday, the issue took a breather and closed down ¥7,000 at ¥803,000 (\$6,819).

NTT's dramatic rise was the force behind last week's 1.219.82-point surge on the Tokyo stock exchange which took the Nikkei index over 18,000 for the first time since September 25.

The ostensible trigger for the new surge in NTT has been a number of developments suggesting the group may at last be finding its way out of a situation in which it faces growing competition, falling market share and slumping profits.

In the past few weeks there have been hints that the semi-private telecommunications group may be allowed to raise its call rates, and comments by senior government officials indicating they are keen to support the issue. In addition, there has been talk of public investment projects in a new

telecommunications infrastructure.

The combination of these developments has spurred excitement over the group's near-term prospects.

But the timing of the rise in NTT, just before corporate Japan closes its accounts at the end of this month, arouses suspicions as to whether the fact these developments have all come at the same time is merely a coincidence.

"It was very cleverly timed," says an analyst at Nomura Research Institute, the research arm of Nomura Securities. If any of the positive factors cited are realised, it would be good news for NTT.

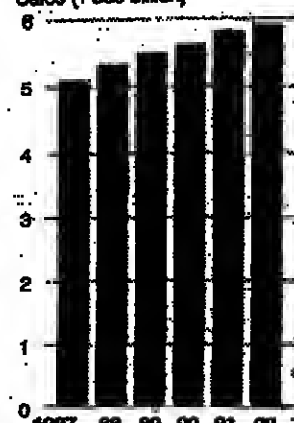
For example, reducing the time of a call from ¥10 for three minutes to ¥10 for 90 seconds - the likely in a rate rise - would double NTT's operating profits by 1994, according to Mr Eric Gan, industry analyst at Kleinwort Benson.

In recent months, NTT has been lobbying heavily for a rise, fuelling speculation it has won some government support for its case.

"The time has finally come when we must really push for a price rebalance. Unless we do something the situation is going to affect our capital investments," said Mr Tomeo

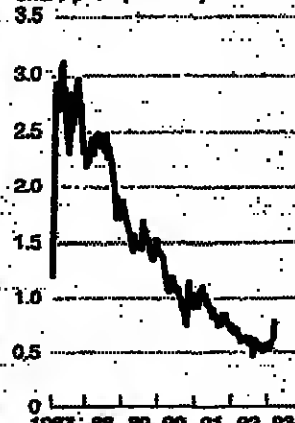
NTT

Sales (¥100 billion)

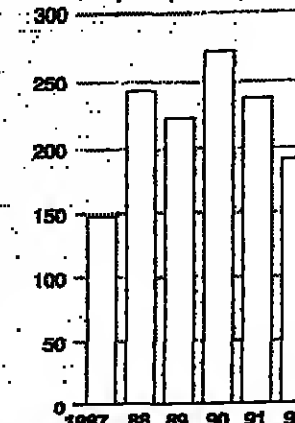


Source: Datacube

Share price (¥ million)



After-tax profit (¥ billion)



Kanbayashi, vice-president. He was speaking at the group's announcement of its business plan for 1993 which was submitted to the ministry of posts and telecommunications last month.

The group has announced a restructuring programme to reduce the number of employees by 30,000 over the next three years and retail outlets by a third.

Comments made by a government official last week, accepting the need for an

increase in pay phone rates, seemed to suggest government sympathy for NTT's cause.

NTT enthusiasts argue that the government, which still owns 65 per cent of NTT shares, has plenty of reasons for wanting to see the share price rise.

More than any other issue, NTT symbolises the hopes, and fears, of Japan's individual investors, many of whom invested in stocks for the first time when the government sold its first tranche in Febru-

ary 1987 for ¥1.15m a share. By April 22 1987, the shares had climbed to a peak of ¥3.18m.

However, a series of financial scandals, the plunge in the Tokyo stock market and concerns over NTT's business prospects led to a spectacular fall in the share price.

In the past three years, the issue has lost 80 per cent of its value, hitting an all-time low of ¥453,000 last August.

Individual investors have become thoroughly disillusioned with NTT, with the bro-

kers who recommended the issue and the authorities who appeared to have betrayed the public trust.

A strong rise in NTT would go a long way to lifting investor sentiment and help prepare the way for the launch this August of shares in JR East, a regional railway company created by the break-up of the state-owned Japan Railways, and in Japan Tobacco, in future.

The ministry of finance, which has been forced to postpone a fourth sale of NTT shares due to the market's weakness, could also do with the income to help pay for Japan's emergency spending package.

Furthermore, a rise in NTT's share price would help many of its corporate shareholders before the closing of their books this month.

Thus, the government could kill several birds with one stone by ensuring that NTT's share price rises.

The third bullish factor supporting NTT's rise has been the idea of a public works project focused on a new telecommunications infrastructure to stimulate the sagging domestic economy.

However, there is little concrete evidence to suggest that

NTT will be able to get what it wants. The ministry of posts and telecommunications, has publicly expressed no sympathy for a rate hike in anything but pay phones. On the contrary, the ministry has continued to take a hard stance on an increase in other local call rates.

"We believe that if NTT restructures its local call operations it could actually make a profit there. If that happens, NTT may end up subsidising its long-distance operations, where it faces competition, with profits from its local call business, where it has a monopoly," says Mr Kazuhiro Suda, director of the tariff division in the ministry's telecommunications bureau.

Meanwhile, plans for a government project to build a new telecommunications infrastructure have been roundly criticised by the ministry of international trade and industry, which believes such a move would undermine the whole purpose of having privatised NTT in the first place.

The question for investors then is how far those who are interested in talking up the share price are prepared to go, and, perhaps more crucially, how long will other investors be prepared to believe them.

Pfizer wins ruling on heart valve case review

By Karen Zagor in New York

Pfizer, one of the fastest-growing US pharmaceutical companies, has won a favourable ruling in a California Supreme Court regarding litigation over the company's Shiley heart valve.

The company had petitioned the court to ask the Court of Appeal to review two cases which would allow out-of-state recipients of the Shiley valve to file lawsuits in California. The Supreme Court granted Pfizer's petition, paving the way for the decision to be re-examined.

The California decision is important for Pfizer because California courts are believed to be more supportive of consumers than other courts.

Pfizer has been trying to keep the Shiley litigation out of California, especially for patients who do not reside in the state.

The earlier court decision ruled that foreign valve recipients did not have the same constitutional rights as US citizens to sue in California. About 50,000 people have received the heart valves made by Pfizer's California unit.

Pfizer, which has been trying to push the Shiley litigation to rest for several years, last year filed a comprehensive plan in a Cincinnati court, including a \$215m class action settlement and an additional \$300m in reserves to settle fracture claims.

The plan was accepted by the court but in Pennsylvania is awaiting a federal appeals court review.

Smith Corona, the US maker of portable typewriters, has predicted a substantial decline in third-quarter earnings. The company, 48 per cent owned by the Hanson group of the UK, blamed lacklustre economic recovery in the US and recession in Europe for its disappointing outlook.

Although the company expects a sharp drop in third-quarter earnings, it expects to remain in the black. In last year's third quarter to March 31, Smith Corona earned \$4.9m, or 16 cents a share.

EGYPT

With the country's economic reforms continuing apace, on the 22nd April, 1993 the Financial Times will be publishing a major new survey on Egypt.

If you would like to advertise within this survey contact:

Paul Maraviglia
Tel: 071-873 3447
Fax: 071-873 3595

FT SURVEYS

Vontobel to lift dividend after 10% advance

By Ian Rodger in Zurich

VONTOBEL, the Zurich private banking group, reported that consolidated net profit rose 9.9 per cent in calendar 1992 to SF24.5m (\$15.9m).

Operating income was up 7.8 per cent at SF168.9m, with trading income jumping 30 per cent to SF32.4m and net interest income rising 25.2 per cent to SF29.3m. Net commission income was down 3.1 per cent to SF93m.

The directors of Vontobel Holding, the group's quoted parent company, said they would propose an increase in dividends for its year to March 31 1993, but the amount had not yet been decided.

Losses deepen at Aerospatiale

By David Buchan in Paris

FRANCE'S two leading aircraft makers yesterday provided further evidence of the problems afflicting the industry. Aerospatiale revealed a loss of between FF1.5bn (\$255m) and FF2.2bn for last year, and Dassault Aviation forecast a small profit on reduced turnover this year.

In an interview with Les Echos, published yesterday, Mr Louis Gallois, president of state-owned Aerospatiale, said that the losses, after a first-half deficit of FF477m, had deepened in the last six months of 1992.

Turnover last year was FF51bn, but Mr Gallois forecast that 1993 would be "a year of dead water, without dramas but without any pick-up in the market".

Dassault executives said the company's turnover would fall about 10 per cent this year from the FF14.4bn level recorded in the past two years.

However, profit would be of the same order of around FF100m achieved in 1992 and 1991 because the company had cut costs and personnel, with the latter falling to 10,000 by end-1993.

But the Dassault officials were more optimistic about the company's medium-term future. Orders booked last year rose to FF21.5bn, thanks largely to the sale of 60 Mirage 2000 fighters to Taiwan, a contract which Dassault coyly still refuses to confirm publicly because of China's hostile reaction to the deal.

By 1995, when Dassault's new range of business jet, the Falcon 2000, starts rolling off the production line, the company expects turnover to start rising again.

Senior Dassault executives said it might be "a good idea" if the new conservative government, which is expected to take power after this month's elections, were to include the company in its privatisation programme and sell some of the French state's 46 per cent stake in the company.

Sextant Avionique, the avionics joint venture between Aerospatiale and Thomson CS, also forecast its turnover to continue to fall this year. But, like Dassault Aviation, it recorded an increase in orders booked last year.

NOTICE OF REDEMPTION

MORTGAGE FUNDING CORPORATION NO. 1 PLC

Class A-1 Mortgage Backed Floating Rate Notes Due March 2020

NOTICE IS HEREBY GIVEN to Bankers Trust Company Limited (the "Trustee") and to the holders of the Class A-1 Mortgage Backed Floating Rate Notes Due March 2020 (the "Class A-1 Notes") of Mortgage Funding Corporation No. 1 PLC (the "Issuer") that, pursuant to the Trust Deed dated 31st March, 1988 (the "Trust Deed"), between the Issuer and the Trustee, and the Agency Agreement dated 31st March, 1988 (the "Agency Agreement"), between the Issuer and Morgan Guaranty Trust Company of New York (the "Principal Paying Agent") and others, the Issuer has determined that in accordance with the redemption provisions set out in the Terms and Conditions of the Class A-1 Notes, Available Capital Funds as defined in the Terms and Conditions in the amount of £3,000,000 will be utilized on 31st March, 1993 (the "Redemption Date") to redeem a like amount of Class A-1 Notes. The Class A-1 Notes selected by drawing in lots of £100,000 for redemption on the Redemption Date at a redemption price (the "Redemption Price") equal to their principal amount, together with accrued interest thereon are as follows:

OUTSTANDING CLASS A-1 NOTES OF £100,000 EACH BEARING THE DISTINCTIVE SERIAL NUMBERS SET OUT BELOW

Bearer Notes	181	235	252	323	370	560	587	643	672
	811	813	817	968	991	1007	1014	1017	1032
	1034	1039	1244	1308	1323	1424	1452	1556	1558
	1604	1625	1694						

The Class A-1 Notes may be surrendered for redemption at the specified office of any of the Paying Agents, which are as follows:

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PO Box 161
60 Victoria Embankment
London EC4Y 0JP

Union de Banques Suisses (Luxembourg) S.A.
36-38 Grand-rue
L-2011
Luxembourg

Morgan Guaranty Trust Company of New York
Avenue des Arts 35
B-1040 Brussels, Belgium

In respect of Bearer Class A-1 Notes, the Redemption Price will be paid upon presentation and surrender, on or after the Redemption Date, of such Notes together with all unexpired coupons and talons appertaining thereto. Such payment will be made (i) at the specified office of the Paying Agent in London or (ii) at the specified office of any Paying Agent listed above by sterling cheque drawn on, or at the option of the holder by transfer to a sterling account maintained by the payee with, a Town Clearing branch of a bank in London. On or after the Redemption Date interest shall cease to accrue on the Class A-1 Notes which are the subject of this Notice of Redemption.

MORTGAGE FUNDING CORPORATION NO. 1 PLC

By: Morgan Guaranty Trust Company

as Principal Paying Agent

Dated: 16th March, 1993

NOTICE

Withholding of 20% of gross redemption proceeds of any payment made within the United States is required by the Interest and Dividend Tax Compliance Act of 1983 unless the paying agency has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the Payee. Please furnish a properly completed Form W-9 or exemption certificate or equivalent if presenting your Class A-1 Notes to the paying agency's New York Office.

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INTERNATIONAL COMPANIES AND FINANCE

Pacific Dunlop sees brighter prospects

By Kevin Brown

PACIFIC Dunlop, the Australian industrial and food group, yesterday announced a 14 per cent increase in net profits to A\$131m (US\$86m) for the first half to the end of December, on sales up 11.6 per cent to A\$3.2bn.

Mr John Gough, chairman, said the group was "over the worst of the recession", and forecast that full-year profits would increase "significantly". The group maintained the dividend at 10.5 cents, 55 per cent franked.

Pacific Dunlop said sales increased in all its Australian operations, which range from fashion clothing and processed food to packaging, automotive products and telecommunications cables.

The Petersville Sleigh food division, acquired in 1991 from the Adelaide Steamship group and renamed Pacific Brands Food, increased earnings before interest and tax by 45 per cent to A\$29m.

The group said its international medical and battery businesses accounted for 38 per cent of profits and 33 per cent of turnover, compared with 29 per cent and 31 per cent in the comparable period of the previous year.

Mr Gough said the group was reaping the benefits of restructuring and rationalisation in the previous two years.

He said a tentative upturn in demand for industrial products was being matched by a strengthening in retail demand, but profit margins remained under pressure.

Mr Gough said trading conditions remained difficult.

CRA makes hostile bid for Cail

By Kevin Brown

COAL and Allied Industries (Cail) is likely to wait two weeks before responding to a hostile A\$11.50-a-share takeover offer from CRA, the Australian mining group, Mr Tony Haralson, managing director, said yesterday.

Mr Haralson said directors would seek an independent valuation of the company before responding to the offer, which values Cail at A\$716m (US\$511m). CRA owns 40.4 per cent of Cail following a A\$7.65 a share offer in March 1991, and the purchase of a further 2.9 per cent stake yesterday morning.

The offer is conditional on approval by Australia's Foreign Investment Review Board because CRA is 49 per cent owned by RTZ of the UK.

Packer pays A\$49m for 5% stake in Fairfax

By Kevin Brown in Sydney

NINE Network, the Australian television group controlled by Mr Kerry Packer, yesterday revealed that it paid A\$49.7m (US\$35.5m) for a 4.98 per cent stake in John Fairfax Holdings, the newspaper group controlled by Mr Conrad Black.

The announcement prompted speculation that Mr Packer was planning a bid for Fairfax, which owns the Sydney Morning Herald, the Australian Financial Review and The Melbourne Age.

However, the re-election of Saturday of Australia's Labor government means there is little prospect of a change in the law regulating cross-media shareholdings, which would be required before Mr Packer could bid.

The conservative opposition coalition had indicated that it might change the law, which prevents broadcasting operators from acquiring shareholdings of more than 15 per cent in newspaper groups.

If he wished to bid for Fairfax, Mr Packer would have to dispose of his controlling 38 per cent shareholding in Nine Network, which would free him from the cross-media ownership restrictions.

Mr Packer sought to take a 15 per cent stake in Fairfax when it was acquired in 1991 by a consortium led by Mr Black, chairman of Hollinger, the Canadian media group and proprietor of the UK Telegraph group. He was forced to with-



Kerry Packer; speculation that he will bid for Fairfax

draw from the consortium after widespread criticism of his prominent role in the Australian media threatened the success of Mr Black's bid.

Nine Network said it had bought the Fairfax shares as an "attractive investment". There were no "current plans" to increase the shareholding.

Nine Network also announced a 1.3 per cent increase in net profit to A\$33m for the six months to the end of December. The board declared an interim dividend of 7 cents, fully franked, compared with nil last year.

The board said Mr Packer would resign as chairman, as previously announced. He will be replaced by Mr Bruce Gynell, who was head of TV-AM, the former British television broadcaster.

Westpac to reduce costs by cutting 2,000 jobs

By Kevin Brown

WESTPAC, the troubled Australian bank, yesterday said it planned to make 2,000 staff redundant as part of a restructuring of retail operations intended to cut operating costs by A\$150m (US\$107m) a year.

Mr Robert Joss, managing director, said most of the staff in question would leave over the next three months as the retail business was split into separate consumer and commercial divisions.

"This new structure will enable us to better serve the different needs of our business and household customers, and presents an important step forward in making Westpac the best retail bank in Australia," he said.

The announcement, which was expected, comes in the wake of a wide-ranging review of Westpac operations following a record loss of A\$1.5bn for the year to the end of September.

The bank announced last week that it planned to dispose of many of its Asian operations, and consolidate its US operations into one office, as part of a restructuring of international activities.

Mr David Morgan, head of retail banking, said the redundancies would raise the bank's retail productivity to world class levels, but would not affect customer service.

Westpac said last year that it would probably make up to 4,000 of its 20,000 staff redundant in an attempt to reduce its higher than average expenses to income ratio.

Warning over Indonesian banks

By William Keeling in Jakarta

INDONESIA'S listed banks have mostly announced an increase in pre-tax profits for 1992, although bankers warn the sector remains poorly regulated and burdened by non-performing debt.

Of the six largest listed banks, five improved on their 1991 performance. Pre-tax profits at Bank Internasional Indonesia (BII) rose 62.4 per cent to Rp12.1bn (\$68m), while Lippobank's increased to Rp5.6bn from Rp4.6bn a year earlier.

Bank Danamon's pre-tax profits rose from 11 per cent to Rp51bn, Bank Bali's increased from 17.6 per cent to Rp41.1bn, and Bank Niaga's grew 12 per cent to Rp36.5bn. Bank Duta was alone in seeing a pre-tax profit fall from Rp35.9bn in 1991 to Rp28.2bn last year. In a year of general consolidation in the Indonesian banking sector, which remains dominated by five state-owned banks, the growth in the listed banks' outstanding loans either slowed or, in two instances, was reversed.

Brokers say the banks are more bullish for growth next year. BII forecast a 50 per cent loan growth this year, after an 8 per cent rise to Rp3,690bn in 1992.

Lippobank and Bank Bali are forecasting loan growth in excess of 20 per cent, while Bank Niaga is anticipating a more modest 15 per cent rise. The government has forecast a 17 per cent rise in banking sector credit this year.

Brokers, however, warn that higher net profits and an increase in credit may flatter the banks' actual performance. The results need to be accompanied by a now-perennial warning that banks may be under-provisioning for non-performing assets, they say.

Banks should be providing a minimum of 2.3 per cent of productive assets for non-performing assets, brokers say, but they believe that none of the listed banks reaches this figure.

In the worst case, brokers estimate that one of the six is

providing less than 1 per cent of its productive assets. An increase in provisions to 3.3 per cent would wipe out twice-over the bank's 1992 net profits.

Banks anticipating high credit growth this year will also need to watch their capital adequacy ratios. Brokers estimate all the six listed banks to have capital adequacy ratios in excess of 7 per cent of risk weighted assets, a level set by the central bank for the end of this month.

But if the banks meet their targets for credit growth, most will need to raise new capital by the end of the year.

Brokers say this could lead to a call on shareholders for new finance or restricted dividend payments to allow banks to retain profits and boost their capital base.

Astra makes sweeping changes

By William Keeling

ASTRA International, the Indonesian motor company, has made sweeping boardroom changes prior to announcing its 1992 results which, brokers say, will show a 89 per cent fall in net profits to Rp87bn (\$42m).

The changes follow the forced sale in January by the Soeryadajaya family, Astra's founders, of their majority stake in the company. Three of four family members have left the board, including Mr Edwin Soeryadajaya, formerly vice-president.

Mr Oskar Surjaatmadja, a former director-general of the ministry of finance and currently chairman of the Jakarta stock exchange, has been appointed president commissioner, equivalent to company chairman.

Mr Prajogo Pangestu, who led the consortium which bought into the Soeryadajaya stake, has become vice-president commissioner, while his close business colleague, Mr Henry Pribadi, has been made commissioner.

The senior management responsible for the company's day-to-day affairs remains largely unchanged, quelling investors' fears that the sale by the Soeryadajayas could prompt an exodus of top personnel.

The Soeryadajayas still own, directly or through nominee companies, more than 13 per cent of Astra but are expected further to reduce their stake to repay debts associated with their privately-owned Bank Summa, which collapsed in December owing Rp1,600m.

Liquidators, led by the central bank, have currently agreed to repay large clients

half their deposits. They hope to raise further finance by selling off the Soeryadajayas' extensive property interests.

Astra has yet officially to announce its 1992 figures, but brokers have been privately informed that net profits slumped to Rp87bn from Rp210bn in 1991. The company's vehicle sales fell 32 per cent to 97,239 units, although it increased market share year-on-year to 56.5 per cent from 54 per cent.

The net profits are higher than brokers' forecasts, reflecting a recovery in the last quarter.

Nevertheless, some new shareholders are reportedly keen to restructure Astra and possibly dispose of non-core businesses, which include timber, palm oil plantation and telecommunications subsidiaries.

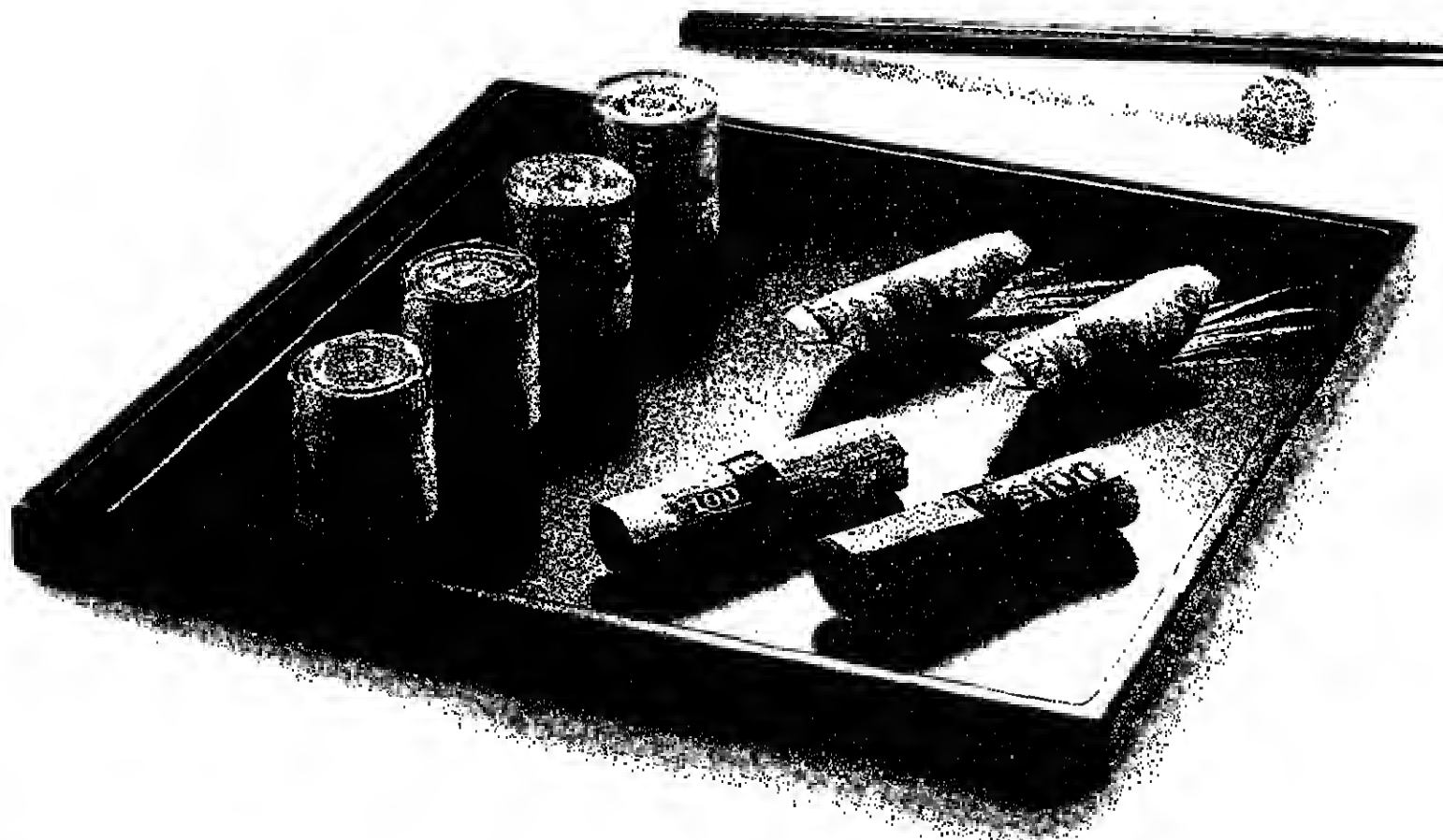
Sharp pre-tax fall at Inchcape Timuran group

INCHCAPE Timuran, the Malaysian trading group, has posted a 47 per cent fall in group pre-tax profits to M\$13.34 (US\$6m) for 1992 from M\$25.31m in 1991. Reuter reports from Kuala Lumpur.

Turnover rose slightly to M\$376.32m from M\$346.52m. Inchcape said earnings were hit by slower growth in sales of consumer products and high interest rates while exports were hurt by the strengthening of the Malaysian dollar.

The company was cautious about 1993, saying an easing of credit restrictions had yet to lift sales of consumer goods.

● Boustead, the Malaysian conglomerate, unveiled net profits of M\$12.74m for the first half to December 31 up 2 per cent from a year earlier, Reuter reports.



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INTERNATIONAL CAPITAL MARKETS

German rate cut hopes propel European prices higher

By Tracy Corrigan in London, Patrick Blum in Prague and Patrick Harverson in New York

EUROPEAN bond prices ended mostly higher yesterday, boosted by growing expectations of a German rate cut.

GERMAN bond prices closed 1/2 point firmer yesterday as expectations that the Bundesbank will cut rates at its council meeting on Thursday gained ground.

GOVERNMENT BONDS

A weekend agreement by the German government on a package of austerity measures known as the solidarity pact has prompted strong speculation that the Bundesbank will not be able to hold out any longer against pressure for a cut in the official interest rates.

However, the market fell from overnight highs in Tokyo. The agreement "makes it easier for the Bundesbank to cut rates because it creates a more organised fiscal structure," said Mr. Klaus Bader, an economist at UBS Phillips & Drew. He added that the fundamental effect is very small, but it "caps the potential for chaos in public sector financing."

The Euro D-Mark future on Liffe also benefited from mounting expectations of a cut. The March contract ended at 92.19, up from a previous close of 92.10.

UK GILT prices ended slightly higher in very thin trading. The market is expected to remain in suspense until today's government Budget statement.

THE DUTCH government sold DM 1.4bn of the new 10-year state bond yesterday. Dutch bond prices rose in line with the German bond market.

THE CZECH Republic has launched a Kcs2.5bn (\$85m) domestic Treasury bond issue - the first such issue for more than 50 years - which has been fully pre-placed with domestic investors. The four-year issue, arranged by Credit

FT FIXED INTEREST INDICES									
	Mar 15	Mar 12	Mar 11	Mar 10	Mar 9	High	Low	Year ago	Low
10Yr Govt	97.74	97.08	97.08	97.08	97.08	97.08	97.08	97.08	97.08
10Yr Govt	113.81	113.46	113.73	113.76	113.71	113.71	113.71	113.71	113.71

GILT-EDGED ACTIVITY									
	Mar 12	Mar 11	Mar 10	Mar 9	Mar 8	Mar 7	Mar 6	Mar 5	Mar 4
10Yr Govt	122.0	121.7	121.7	121.7	121.7	121.7	121.7	121.7	121.7
5Yr Govt	138.3	138.2	138.3	138.3	138.3	138.3	138.3	138.3	138.3

BENCHMARK GOVERNMENT BONDS									
	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago	Year ago	Low
AUSTRALIA	10.000	10/02	116.1158	+0.072	7.74	7.01	8.48	8.48	8.48
BELGIUM	8.000	03/03	112.1600	+0.380	7.25	7.24	7.75	7.75	7.75
CANADA	7.250	09/03	97.3000	-1.000	7.63	7.51	7.63	7.63	7.63
DENMARK	6.000	05/03	98.5000	+0.380	0.18	8.08	8.76	8.76	8.76
FRANCE	8.000	09/08	103.8422	+0.322	7.07	7.15	7.91	7.91	7.91
GERMANY	5.000	04/03	108.2000	+0.310	7.32	7.25	7.81	7.81	7.81
ITALY	12.000	05/02	67.0500	+0.370	12.94	12.90	13.02	13.02	13.02
JAPAN	4.800	09/02	104.2000	-1.087	3.88	3.71	4.03	4.03	4.03
NETHERLANDS	7.000	09/03	102.8500	+0.150	6.46	6.46	6.58	6.58	6.58
SPAIN	10.000	08/02	94.2750	+0.330	11.31	11.29	11.46	11.46	11.46
UK GILTS	7.250	03/08	105.06	+0.40	6.48	6.48	6.71	6.71	6.71
US TREASURY	8.250	02/03	100.08	+0.032	6.21	6.20	6.40	6.40	6.40
US TREASURY	7.125	02/03	102.04	+0.040	6.88	6.88	6.77	6.77	6.77
ECU (French Govt)	6.000	04/03	102.8500	+0.210	7.47	7.44	8.13	8.13	8.13

that hit the eastern US states and may have an impact on some crops, showed higher prices among a broad range of commodities. The uptick in the CRB unsettled Treasury investors, who fear that inflationary pressures may be building up in the economy as the recovery gathers pace. Last week, the February producer prices index increased more than expected, and with yesterday's CRB rise, dealers and investors are nervously awaiting the February consumer prices report, which is due out tomorrow.

German commercial banks in EC protest

By Quentin Peel in Bonn

THE German Banking Federation, representing the commercial banking sector, yesterday agreed to make a formal complaint to Brussels about new rules allowing Germany's powerful state banks to register a big increase in their asset base.

The big private sector banks, including Deutsche Bank, Dresdner Bank and Commerzbank, are furious at the new ruling which allows the state banks to include the assets of their housing finance subsidiaries in their working capital base, and thus greatly extend their lending activities.

Mr Eberhard Martini, president of the banking federation, said a letter would be sent to the European Commission immediately after yesterday's annual meeting, asking whether the new rules conformed to EC guidelines on capital adequacy.

The main target of the banks is the Westdeutsche Landesbank (WestLB) which has succeeded in extending its working capital by DM4bn as a result of consolidating the assets of WFA, the housing finance institution for North Rhine-Westphalia.

Mr Martini said that the new ruling, made by the Bundesbank, was a "serious threat to the supervisory body for the banking sector, gave the public sector banks a significant competitive advantage over private sector banks."

S&P reviews Volvo's short-term debt rating

By Christopher Brown-Humes in Stockholm

STANDARD & Poor's, the US credit rating agency, yesterday said it was reviewing the short-term debt rating of Volvo, the Swedish motor vehicle group, with a view to a possible downgrade, following a sharp increase in group debt and higher operating losses in 1992.

S&P said it had placed Volvo's single-A1 rating on CreditWatch with negative implications, but noted that the rating was unlikely to fall below single A2 because of the group's "reasonable financial flexibility."

Last week, Volvo announced

a SKr4.75bn loss after financial items, compared with a SKr1.5bn profit in 1991, with operating losses rising to SKr2.25bn from SKr1.17bn. Net debt amounted to SKr13bn, up sharply from SKr7bn in 1991, with around SKr2bn attributed to currency fluctuations.

S&P said: "In the face of continuing difficult trading conditions in its key markets, Volvo is constrained in its ability to contain debt usage. Debt is expected to remain higher for the foreseeable future." Last December, Moody's Investors Service downgraded Volvo's commercial paper ratings to Prime-2 from Prime-1.

Swiss drop bond issuance tax

THE SWISS federal cabinet yesterday abolished stamp tax on Swiss franc bond issuance by foreign borrowers with effect from April 1, AP-DJ reports from Zurich.

It was feared the 0.15 per cent tax on secondary market purchases, and 0.80 per cent tax on primary market purchases, would see Swiss franc bond issuance by foreign borrowers move from Switzerland to foreign marketplaces.

The federal council was given the power to remove the stamp tax in a national referendum on September 27. Also, according to the Swiss finance ministry, a rule requiring that Swiss franc foreign bonds be syndicated by banks located in Switzerland, would be replaced by a regulation requiring only that the lead manager of the issue be located in Switzerland and not the entire syndicate.

KfW raises DM1.5bn as German currency dominates

By Antonia Sharpe

THE D-Mark sector of the international bond market was active yesterday as domestic and foreign borrowers decided that the time was right to lock into German interest rates.

The Bundesbank is widely expected to cut its leading interest rates at its council meeting on Thursday, following an agreement at the weekend of the public financing for the "solidarity pact" for the east German economy.

Syndicate managers said the rate cut had been discounted by the market. "Many issuers feel that German interest rates are close to the bottom of their cycle for now," one syndicate manager at a German bank said.

KfW International Finance USA, the financing arm of the triple-A rated German government agency for redevelopment, raised DM1.5bn through an issue of 10-year Eurobonds.

7 1/2 per cent bund due December 2003, the lower end of the indicated range. The bund yielded 6.54 per cent yesterday afternoon.

An official at the lead manager, Dresdner Bank, said that the bonds were freely distributed at home and elsewhere in Europe.

For some syndicate managers, the indicated yield spread on KfW's bonds appeared to be on the safe side, in order to allow some room for performance. They expected the spread to narrow to 12 basis points when the bonds were freed to trade. However, Dresdner said the bonds were fairly priced, in view of the 26 basis-point spread between yields on 10-year bunds and domestic bonds.

By contrast, there was general agreement in the market that the pricing on the Kingdom of Denmark's DM700m five-year Eurobond was tight. The bonds yielded 10 basis points over the series 105 of medium-term German government bonds. Some syndicate managers believed that it would be difficult for the bonds to keep to the launch spread once they were freed to trade, which is likely to happen early today.

WestLB, the lead manager, reported good demand for the bonds from central banks, attracted by their five-year maturity and the fact that the borrower is an European Community member.

Mr Niels Sorensen, head of the debt department, foreign area, at Denmark's National Bank, said that the proceeds from the issue were for the foreign exchange reserves of the central bank. The issue will almost complete the central bank's first-quarter borrowing programme of DKr12bn.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
Province of Quebec (a)	100	(a)	100	Apr 2003	0.5/0.2	Deutsche Bank London
ESBIE (b)	100	(b)	98.575	Apr 2000	0.45	Merrill Lynch Int.
Nippon Yusen K.K. (c)	100	(c)	100	Apr 1997	2.25/1.5	Nikko Europe
YEN						
Fuji Bank Int. Finance (d)	35bn	(d)	100	(d)	0.3/0.1	Fuji Int. Finance
Fuji Bank Int. Finance (e)	15bn	(e)	100	(e)	1/-	Yamaichi Int. (Europe)
D-MARKS						
KfW Int. Finance USA (f)	1.5bn	(f)	100	Apr 2003	2.5/2.175	Dresdner Bank
Deutsche Bank (g)	1.25	(g)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (h)	1.25	(h)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (i)	1.25	(i)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (j)	1.25	(j)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (k)	1.25	(k)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (l)	1.25	(l)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (m)	1.25	(m)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (n)	1.25	(n)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (o)	1.25	(o)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (p)	1.25	(p)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (q)	1.25	(q)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (r)	1.25	(r)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (s)	1.25	(s)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (t)	1.25	(t)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (u)	1.25	(u)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (v)	1.25	(v)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (w)	1.25	(w)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (x)	1.25	(x)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (y)	1.25	(y)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank
Deutsche Bank (z)	1.25	(z)	101.275	Apr 2003	0.3/0.15	Westdeutsche Landesbank

longer-term debt now that German rates have come down, a \$500m worth of five-year floating rate notes, its second such issue since November.

The joint lead manager, Morgan Stanley, said the bonds were trading at their issue price late yesterday.

CCF took advantage of investors' hopes of lower interest

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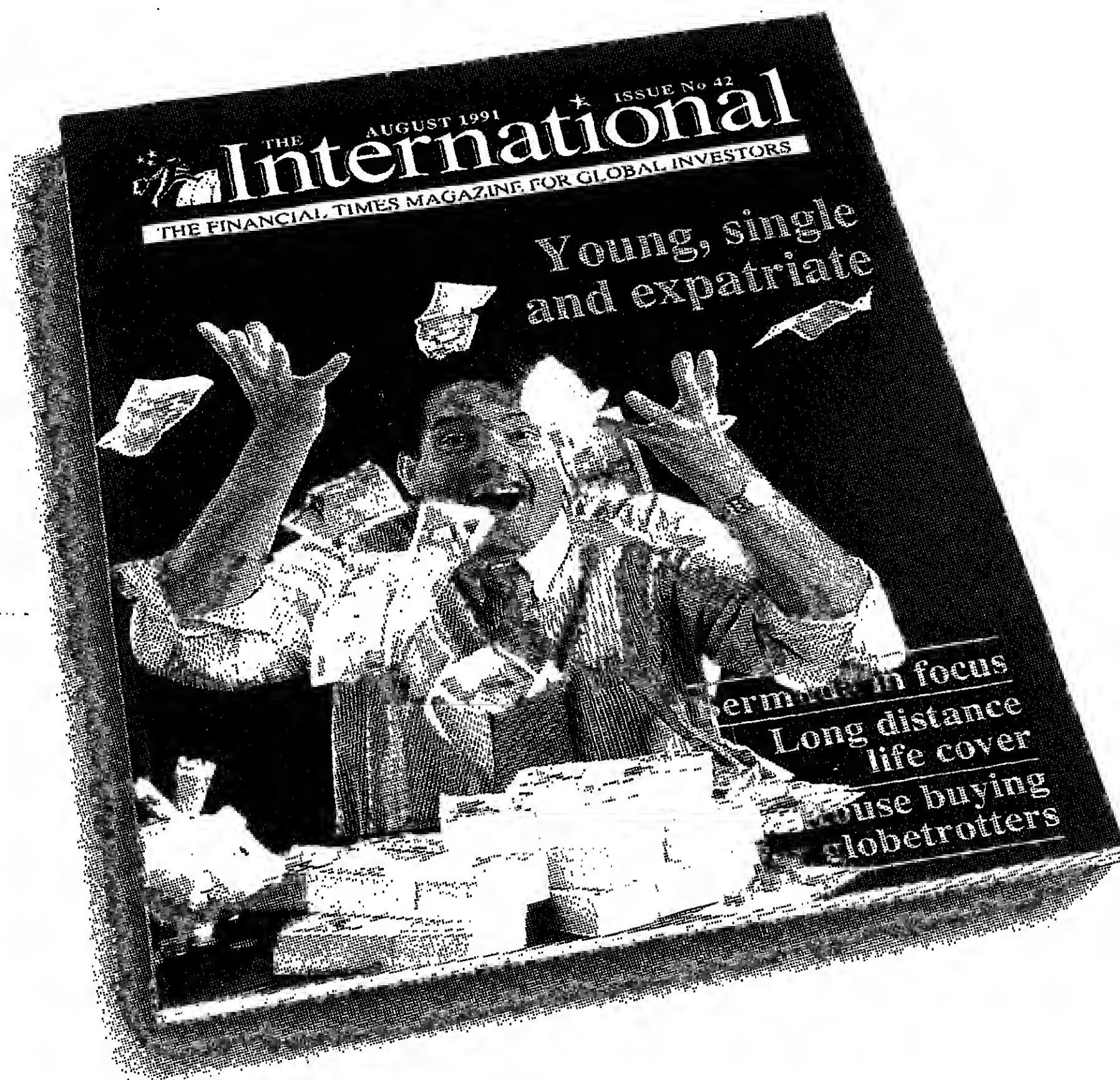
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Job Status

- ☐ 1 Proprietor/Self-Employed Partner
☐ 2 Employed
☐ 3 Consultant
☐ 4 Retired
☐ 5 Student/Unemployed

Nature of Business

- ☐ 1 Financial Services
☐ 2 Construction
☐ 3 Other Services
☐ 4 Transport/Travel/Communications
☐ 5 Distribution/Hotels/Catering

- ☐ 6 Extraction (Oil, minerals, etc)
☐ 7 Manufacturing/Engineering
☐ 99 Other (Please State _____)

Age

- ☐ 1 Under 25
☐ 2 25-34
☐ 3 35-44
☐ 4 45-54
☐ 5 55-64
☐ 6 65+

- Types of investment currently held**
☐ 1 Domestic Equities

- ☐ 2 International Equities
☐ 3 Offshore Deposits
☐ 4 Property
☐ 5 Bonds
☐ 6 Precious Metals/Gems
☐ 7 Unit Trusts/Mutual Funds
☐ 8 Other International Investments
☐ 99 None

Which of the following do you have?

- ☐ 1 Credit Card (e.g. Visa)
☐ 2 Gold Card
☐ 3 Charge Card (e.g. Amex)
☐ 99 None



COMPANY NEWS: UK

Strong growth in Hong Kong and Asia Pacific operations

HSBC doubles to £1.7bn

By John Gapper and Simon Hoberton

STRONG PROFITS in Hong Kong and the Asia Pacific region helped HSBC Holdings to raise pre-tax profits by 94 per cent in sterling terms to £1.7bn for 1992 compared with £890m.

The increase expressed in Hong Kong dollars was 56 per cent to HK\$2.1bn (HK\$12.8bn). Asia Pacific operations made a £1.3bn pre-tax profit (£878m). They contributed £430m of the rise in pre-tax profit, helped by an exceptional profit of £270m on the sale of a 10 per cent stake in Cathay Pacific Airways.

The charge for possible bad debts more than doubled to £1.19bn (£502m) after taking in £321m attributable to Midland, £297m from Olympia and York, and £90m from Concord Leasing, £49.5m of which relates to shipping loans.

Provisions against Olympia and York now amount to 60 per cent of the £500.1m exposure. Mr John Bond, chief executive, said it was "extremely unlikely that we would take another stand alone position like that in the future".

Sir William Purves, chairman, said that although economic growth in Asia had been robust, recession in several of its markets made 1992 quite a difficult year and resulted in "a

significant increase in the level of provisioning".

Sir William said this would be "a year of consolidation" for Midland. "The highest priority is for Midland to get its domestic retail business firing on all cylinders, and to improve service to customers," he said.

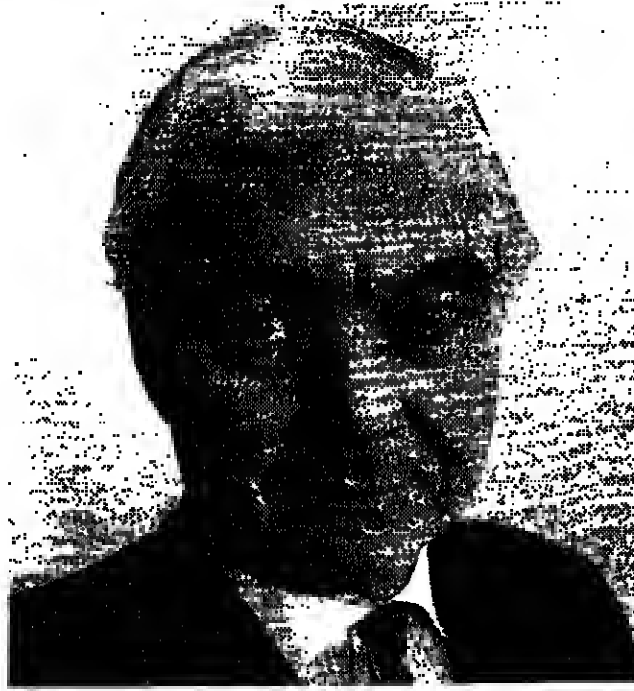
HongkongBank's profit attributable to shareholders after tax and exceptional items rose to £1.01bn (£599m). Hang Seng Bank, in which HongkongBank has a 61.4 per cent shareholding, contributed £486m (£311m).

Both Marine Midland, the US subsidiary, and HongkongBank of Australia returned to profit. Marine Midland showed a profit of £79.5m (£24.5m loss), while HongkongBank of Australia made a profit of £3.5m (£18.4m loss).

Profits of James Capel, the group's stockbroking subsidiary, fell to £7.6m (£17.7m), after restructuring and other charges. European results were "disappointing," while Asia and the US were "highly profitable".

Net interest income grew to £3.34bn (£1.64bn) and other operating income grew to £2.63bn (£1.2bn).

Despite a rise in operating expenses to £3.37bn (£1.78bn) the cost to income ratio fell to 56.6 per cent (58.4 per cent).



John Bond: charge for possible bad debts shows sharp increase

The group's ratio of capital to risk-weighted assets stayed constant at 13.3 per cent, although its tier 1 capital ratio fell to 7.4 per cent (9.6 per cent).

Its property revaluation reserve under tier 2 capital rose to £1.05bn (£381m). Earnings per share were 72 pence up at 62p (36p).

The final dividend is 14.2p, increasing the total to 19p (12.7p).

Shareholders' funds rose to £8.01bn (£4.82bn) and assets grew to £170.5bn (£85.79bn). The return on average assets rose to 1 per cent (0.7 per cent). HSBC's 75p ordinary shares closed 20p higher at 634p.

See Lex

BM poised for losses after heavy write-downs

By Jane Fuller

BM Group, the construction equipment and engineering concern, is likely to fall into the red this year after substantial losses on business disposals and other write-downs.

The group announced yesterday that it would take an exceptional loss of about £13m on the recent sale of Blackwood Hodge UK and Spain to international Machinery Company.

The share price, which collapsed last summer after the departure of the chairman Mr Roger Shute, fell 6p to 54p yesterday.

A root-and-branch review has been carried out under the new chairman Mr Moger Woolley, with the help of a new merchant bank - Robert Fleming - and new auditors - Price Waterhouse for Kingston Smith.

Analysts estimate that exceptional losses could run to £20m-£30m. This would push the group into the red even before interest costs on trading profits thought to be running at £15m-£20m for the year to June 30. Last June net debt stood at £61.1m.

The interim results have been delayed until April.

Thirst for Vimto prompts 8% gain at JN Nichols

STRONG SALES of Vimto, the fruit and herb drink, helped JN Nichols report an 8 per cent increase to £8.36m in pre-tax profits for 1992, on sales virtually unchanged at £47m.

The campaign to widen the appeal of Vimto, traditionally the favourite soft drink of Northern non-drinkers, and an increased contribution from Nichols Foods helped to offset a decline in contract canning and export sales.

The company said the 11m decline in exports, a significant proportion of which are targeted at the Middle Eastern market where Vimto is often used to break the Ramadan

fast, had been due to the timing of deliveries. Ramadan had fallen later than the previous year.

The group's main export markets continued to grow, however. In the UK, bad weather last summer had had an adverse effect on sales in the latter half of the year. Nevertheless, Vimto showed a strong improvement and the canning business helped to increase sales.

The final dividend is increased by 10 per cent to 8.5p, for a total 13p higher at 13.6p. Earnings were ahead from 32.6p to 35.4p.

Gearing surprise as Laporte drops 10%

By Paul Abrahams

LAPORTE, the speciality chemicals group, yesterday reported pre-tax profits down 10 per cent, from £96.4m to £86.6m, for the year to January 3.

The shares fell 9p to 876p, as analysts were surprised by the group's gearing. Although debt at the year end had been £125.6m, Mr Ken Minton, chief executive, said during a presentation to analysts that it had deteriorated since January to about £190m.

Most of the deterioration - about £25m - had been caused by adverse currencies and in particular the rise of the dollar. Debt at Evode, a recent acquisition, had been higher than expected (£10m) and the group had bought about £8m of Evode's shares during the takeover. A further acquisition (£5m) and seasonal changes (£8m) had added to debt.

Mr Minton said the group would be cash-positive during 1993.

Mr Minton said the results had been in line with predictions and that he felt pretty good about the prospects for Evode and the group generally.

The results were achieved on turnover down from £616m to £608m. The pre-tax profits included £9.6m from the Interbox business which was sold on May 21. Sales of Interbox until that date were £74m.

The organic speciality division's operating profits were £15.8m (£4.9m) on turnover up from £33.6m to £31.7m thanks to the acquisition of the peroxo speciality business at Interbox. The existing business increased from £33.6m to £41m. The peroxo business added £9.4m to the profits.

Sales at the absorbents division increased 12 per cent from £81m to £90.8m, while trading profits rose from £11.7m to £12.1m. Mr Minton said the figures masked a distinct improvement in margins during the second half of the year from 10.7 per cent to 13.9 per cent. The improvement was due to significant investment and rationalisation.

The construction chemicals division reported operating profits up 69 per cent from £10.6m to £17.9m on sales of £141.1m (£106.9m). Rockwood, a recent acquisition, generated £25.7m of the £35.2m increase in turnover.

The hygiene and process chemicals division posted trading profits up 14 per cent from £14.1m to £16.1m on sales of £96.3m (£89.3m). The metals and electronic chemicals division's turnover was up 3 per cent from £94.4m to £97.5m. Operating profits fell 7 per cent from £15.2m to £14.2m.

Capital expenditure, which the company described as heavy, was £74m.

Earnings per share fell 3 per cent from 40p to 39.2p. The board proposed a final dividend of 12.5p, making a total for the year of 19.5p (18.9p), a rise of 3 per cent.

Results for the field data side declined with sales of £34.8m (£49.5m) and operating profit of £2.12m (£3.54m). Peek said this was due to weak performance of Peek Measurement, which produces measuring equipment for the petrochemical and water industries in Europe.

Earnings per share advanced to 4.2p (3.6p) and an unchanged final dividend of 2.35p is recommended for a maintained total of 3.4p.

Mr Allen Standley, group managing director, said he was relatively cautious about 1993, noting there was a reluctance in the present economic climate in Europe for customers to make commitments to big capital investments such as traffic systems. He predicted

Turnround in exceptionals behind 25% decline at ECC

By Maggie Urry

PRE-TAX PROFITS at English China Clays, the industrial minerals and construction materials group, fell 25 per cent in 1992 to £36.2m, compared with £115.4m for the previous year.

There was an exceptional charge of £14.3m, against a credit of £2.2m, mainly relating to the write down of housing land announced in September. Group sales fell 4.5 per cent to £965.3m.

Lord Chilver, chairman, said the European markets were "unlikely to show much progress" in 1993, but there were signs of recovery in the US.

He said the group expected to at least maintain the dividend in 1993 at the 1992 level of 20p, itself unchanged from 1991. The shares rose 5p to 456p.

Mr Andrew Teare, chief executive, said there had been "intense pressure from customers for substantial price reductions" as the paper industry,

the main user of china clay, struggled with overcapacity. He said ECC had resisted and volumes had been maintained.

He said the group was in the middle of a five year programme to change the company around. "We have done all the obvious things," he said, such as cutting costs, selling businesses and sorting out the balance sheet.

The group was now the world's leading supplier of kaolin following the purchase of Georgia Kaolin in the US, at the end of 1990.

The next step was to seek out business opportunities, such as expanding sales into the Pacific area, supplied from the US, and developing new uses for its industrial minerals.

Operating profits from ECC International fell to £90.5m (£97.7m), although sales were marginally higher at £589.8m.

Profits from construction materials, largely hard rock used in road building, fell to £15.3m (£24.1m). Sales rose 2.4 per cent to £352.4m, as strong

volumes were offset by price weakness.

The housebuilding division, now being wound down, contributed £8.3m (£14.3m) in profit, and generated cash of £18.6m (£23.8m) as land was sold. Since 1990 £52m had been raised from this division, and the total could reach £200m.

The interest charge was £5.4m (£16.5m) following the £200m rights issue last year. Net debt rose by £40.3m to £172.8m, 21 per cent of shareholders funds. The translation of overseas debt at lower sterling rates added £45.2m to debt.

Earnings per share fell 30 per cent to 21.87p. An unchanged final dividend of 13.4p is proposed.

Under FRS 3, which the group will apply to its published accounts, pre-tax profits rose from £79m to £100.2m, mainly because of the reclassification of an extraordinary profit of £18m. Earnings per share were 27.26p, up from 15.09p.

See Lex

Sterling's collapse helps MAI advance by 12% to £33.9m

By Hugh Carnegie

MAI, the financial services and media group headed by Lord Hollick, the Labour peer, increased pre-tax profits by 12 per cent to £33.9m in the six months to December 31, against £30.2m.

The core money and security broking business was again the main engine, accounting for all but £25m of turnover, which was up 9 per cent at £204.5m (£187.2m). Broking operating profit was up 16 per cent at £21.5m (£18.8m) in what analysts described as peak conditions with governments worldwide seeking financing for deficits.

With 60 per cent of profits accruing overseas, mostly in dollars, the company benefited from the sterling crash following "Black Wednesday" last September.

Lord Hollick said translation was at an average of £1.63, compared with £1.75 for the

1991-92 year. With the rate now running at about £1.43, the benefit would be greater in the second half, he said.

MAI added, however, that profits had been held back by sharp decline in foreign exchange activity in the Far East, particularly Japan, where there was no sign of a sustained improvement.

Meanwhile, Lord Hollick declined to comment on his relations with fellow directors at Mirror Group Newspapers. He has distanced himself from a recent statement from the board expressing support for the current management but refused to be drawn on reports that he might resign. "I am still a director," he said.

He was more forthcoming about Meridian Television, which won the south of England ITV franchise with a £36m bid and began broadcasting on January 1.

He said advertising and audience figures were slightly

ahead of target. It was premature to speak of a sustained upturn in TV advertising, but prospects seemed good.

MAI is investing £30m most of which has already been spent, with a targeted profit for the company in 1994.

Profits increased at the Wagon used car finance company, the mainstay of retail financial services, despite sluggish motor sales. Analysts said Wagon had increased its market share and appeared to have overcome the worst of its bad debt problems. Wagon said it had refinanced more than £200m of bank loans on a medium term basis.

Profits in the information side, which includes the NOP market research organisation, were also well ahead at £2.1m, compared with £1.2m, on turnover of £25.4m (£22.9m).

The interim dividend is raised to 2p (1.4p) to reduce disparity. Earnings per share were 6.5p (5.9p).

Traffic side bolsters Peek

By Hugh Carnegie

PEEK reported pre-tax profits up 18 per cent, from £6.06m to £7.13m for 1992, on turnover ahead 6 per cent from £84m to £88.8m, despite a setback in its field data business.

The traffic division, which includes systems for junction signals and road offence monitoring in the US, Europe and the Far East, saw operating profit rise 75 per cent to £6.6m (£3.77m). Most of this was attributable to acquisitions - notably of four companies in Denmark, Finland, Norway and Sweden - which helped push turnover up 56 per cent to £54.1m (£34.6m).

Results for the field data side declined with sales of £34.8m (£49.5m) and operating profit of £2.12m (£3.54m). Peek said this was due to weak performance of Peek Measurement, which produces measuring equipment for the petrochemical and water industries in Europe.

Earnings per share advanced to 4.2p (3.6p) and an unchanged final dividend of 2.35p is recommended for a maintained total of 3.4p.

Mr Allen Standley, group managing director, said he was relatively cautious about 1993, noting there was a reluctance in the present economic climate in Europe for customers to make commitments to big capital investments such as traffic systems. He predicted

profits in single figures this year. Peek was optimistic, however, about prospects for growth over the next decade, particularly in "smart" traffic systems which increase efficiency of road use. It is looking to expand in the Far East and has negotiated a 41 per cent holding in a control systems company based in Chengdu, China.

Mr Standley said Peek was also planning to concentrate on producing strong growth in its field data side. This will come through its wholly-owned Husky computers subsidiary, which last year introduced two new "rugged" computers and increased turnover and profits.

HSBC Holdings plc 1992 Results
Performance continued to improve

FINANCIAL PERFORMANCE			
For the year	1991	1992	%
	£m	£m	+
Group profit before tax	880	1,710	94
Profit attributable to shareholders	586	1,221	108
Per share	Pence	Pence	
Earnings	36.06	62.07	72
Dividends	12.71	19.00	49
At year-end	£m	£m	
Shareholders' funds	4,819	8,011	66
Capital resources	6,789	13,975	106
Assets	85,786	170,450	99

Comparative figures for 1991 have been amended to conform with the current year's presentation following the disclosure of the Group's inter-reserves in 1992.

"Although economic growth in Asia was robust, the continuing recession in several of our major markets made 1992 quite a difficult year, and resulted in a significant increase in the level of provisioning. In these circumstances, the Group's results are satisfactory."

The acquisition of Midland Bank was a very significant development in the history of the HSBC Group. Integrating Midland into the Group is a major priority for 1993 and I am pleased to report that the progress so far has been encouraging.

The continuing improvement in the Group's performance is closely linked to the outlook for the world economy in 1993. The economy in the US is gradually recovering, but economic prospects in the UK and much of the rest of Europe are less encouraging. We are determined to continue to develop our business in Asia, which contains some of the world's fastest-growing economies and where we have an unrivalled position."

Sir William Purves, Group Chairman

The HSBC Group's performance continued to improve in 1992. In addition to the inclusion of Midland Bank for the first time since its acquisition in July, the growth in profits during 1992 reflects improved results from all the major members of the Group. In particular, increases were achieved by HongkongBank, Hang Seng Bank and The British Bank of the Middle East. Both Marine Midland Bank and HongkongBank of Australia returned to profitability.

The information in this announcement does not comprise statutory accounts within the meaning of section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 December 1992, which contain an unqualified auditor's report and do not contain a statement under section 237(1) or (3) of the Act, will be delivered to the Registrar of Companies in England and Wales in accordance with section 242 of the Act.

Copies of the full results announcement may be obtained from Group Public Affairs, 10 Lower Thames Street, London EC3R 6AE, United Kingdom or 99 Bishopsgate, London EC2P 2LA, United Kingdom. The 1992 Annual Report and Accounts will be sent to shareholders in mid-April.

HSBC Holdings plc

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Registered in England: number 617987
Registered Office and Group Head Office: 10 Lower Thames Street London EC3R 6AE, United Kingdom



Whitegate Leisure in the black

IMPROVED trading, lower interest rates and the disposal of its loss-making French businesses enabled Whitegate Leisure to return to the black in the six months to February 28.

Pre-tax profits of £682,000 for the period compared with losses of £1.51m last time and a £3.03m deficit for the 8 months ended August 31 1992.

Whitegate's core business - leisure, leisure in the Midlands and the north of England - performed better, but turnover was still suffering as a result of low levels of general economic activity. UK leisure profits rose to £3.37m (£2.3m) on turnover of £10.4m (£8.7m).

The USM-quoted company said it continued to offer its healthcare businesses for sale and considerable interest was being shown. These operations turned in profits of £103,000 (£3,000 losses).

Last year's group losses were after an exceptional charge of £784,000 for restructuring costs and write down of assets. Interest took £1.66m (£1.96m) and earnings per share were 2.4p (5.6p losses).

Record declines to £1.25m

Pre-tax profits at Record Holdings, the maker of hand and bench tools, plunged from £3.35m to £1.25m in 1992.

Group turnover increased to £28.5m (£28m) with exports up

more than a quarter, while UK sales declined to £16m, against £16.2m.

Redundancy costs increased sharply from £132,000 to £891,000 as the group lost more than 100 employees.

It made an exceptional provision of £395,000 against the cost of transferring plant from Warrington to Sheffield, which was partly offset by £104,000 exceptional profits (£35,000 losses) on disposal of property in Canada.

The board proposes to hold the final dividend at 2.45p maintaining the total for the year at 3.6p uncovered by earnings per share of 2.2p, compared with 6.9p last time.

United Uniform climbs to £3.65m

Although 1992 proved to be a more difficult year than anticipated 12 months ago, United Uniform Services, maker of fitted uniforms and corporate clothing, raised pre-tax profits by 7 per cent from £3.4m to £3.65m in 1992.

Turnover rose 8 per cent to £57.1m. Earnings per share were 10.9p (10.1p) and the dividend total is maintained at 3p with an unchanged final of 2p.

The company is to change its name to that of its principal subsidiary, Horace Small Apparel.

Metalrax maintains growth with £7.3m

Metalrax Group, the specialist engineer, continued its growth in the year to December 31 with pre-tax profits ahead from £7.21m to £7.31m, on turnover 4.6 per cent lower at £50m.

With a higher tax charge of

£2.36m (£2.27m), earnings per share were marginally down at 6.81p (6.93p); but the total dividend goes up from an equivalent of 3.55p to 4p with a recommended final of 3p. A 1-for-10 scrip issue is also proposed.

Timber surge benefits Unigroup

Unigroup, the building materials manufacturer and distributor, lifted pre-tax profits from £204,000 to £466,000 in the six months to December 31.

The result reflected an upsurge in profits from the timber products division and also the cessation of activities on the clothing side where an operating loss of £122,000 was recorded in the 1991 interim period.

Turnover advanced from £11.6m to £12.7m and operating profit from £262,000 to £466,000. Sales in the timber products division increased from £4.46m to £7.71m and operating profits from £670,000 to £797,000.

Earnings per share were up from 0.58p to 1p.

William Bedford losses rise to £0.27m

With insufficient turnover to make use of its showrooms and ancillary services 1992 pre-tax losses at William Bedford, the antique dealer and restorer, increased from £210,000 to £272,000.

The USM-quoted company added that unless there was an unforeseen increase in turnover the present year would again be difficult.

Turnover was £1.57m (£1.63m). Losses per share were 5p (2.6p).

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres- ponding dividend	Total for year	Total last year
Abbott Mead	8.3	June 18	5.6	9.3	8.4
Alliance Trust	3	Apr 28	28	45	43
Antiochgate	14	June 15	13	20	19
BPP	5.31	May 20	4.5	8	8.9
Clarendon G'ment	3.95	July 1	3.5	7.25	8.5
Delta	9.8	June 1	9.8	14	14
Emesa	0.1	May 21	0.35	0.4	1
English China	13.4	June 15	13.4	20	20
HSBC	14.2	June 4	-	19	-
IMI	5.8	May 17	5.8	10	10
JJB	5	May 17	5	7.5	5
Laporte	12.5f	May 20	12.1	19.5	18.9
MAI	2	Apr 30	1.4	6	6
Metalrex	3	Jun 4	2.64	4	3.55
Nichols (Vimto)	8.5	May 10	7.7	13.8	12.3
Peek	2.35f	July 5	2.35	3.4	3.4
Record	2.45	July 1	2.45	3.8	3.8
Rugby	3.6	May 14	3.6	8.45	8.45
Takara	1.2	Apr 29	1	1.8	1.5
United Uniform	1.7	May 21	2	2.5	2
Wassail	1.7	May 21	1.3*	2.5	3*
Watmoughs	8.8	Apr 30	8	11.5	10.5

Beds increase from 2,625 to 4,335 with a further 1,170 on the way Takare rises 56% to £12m

By Maggie Urry

TAKARE, the nursing homes group, raised profits by 56 per cent in 1992 to £11.9m, against £7.6m. Sales rose 62 per cent, from £29.7m to £48.6m.

Operating profits rose 61 per cent to £10.9m (£6.7m), and interest received was £341,000 (£233,000) after capitalising £4.2m (£3.1m) of interest payments.

Earnings per share growth was slower, at 30 per cent to 12.1p (10.1p), because of the full year impact of the share issue in September 1991. A final dividend of 1.2p (0.9p) is proposed for a total of 1.3p.

Mr Keith Bradshaw, chairman, said the reforms to state funding of care for the elderly chronically ill, which takes effect from April 1, were now clearer. Funding of £524m for 1993-94 was adequate, he said, with a majority committed to

the independent sector. The principle of patient's choice of home had been enshrined in the reforms.

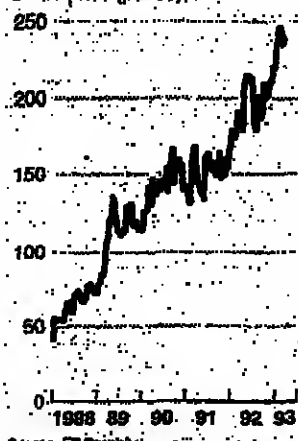
Takare has been in talks with all the local security departments in areas where it has homes and expected to agree prices and admissions policies with them all before April 1, Mr Bradshaw said. It had also signed long term contracts with three health authorities since details of the new system were announced last autumn.

During 1992 Takare increased its beds from 2,625 to 4,335 and has since opened another 450 with 720 under construction due to be completed by April 1. Gearing rose from 10 to 41 per cent.

Mr Bradshaw said that although Takare could fund development costs of £75m over 1993 and 1994 from existing resources, that would take

Takare

Share price (pence)



gearing to an unacceptable level. At the time of the last share issue Takare promised not to raise more equity for

two years. He said the group was looking at fixing interest rates on its debt.

COMMENT

Takare's impressive growth continues, and there is no reason to doubt that it can take advantage of the opportunities its market offers. The community care reforms may cause some short term confusion, but should strengthen its hand. The only question is of funding the expansion, though even this should become less of a problem as the base gets larger. Taking capitalised interest into account, interest cover is slim, and there is every chance of a rights issue once the moratorium runs out in September. Even so, Takare has produced good earnings growth even with share issues, reflected in a prospective p/e of up to 17 on forecasts of about £14m pre-tax.

Ransomes in the black with £900,000

By Catherine Milton

BETTER GRASS growing conditions helped Ransomes, the grass cutting machinery maker, return to profitability in 1992.

The group, however, remained highly geared. Pre-tax profits amounted to £900,000 and replaced losses of £4.5m on turnover 6.7 per cent higher at £156.6m (£146.7m).

Aggregate turnover at the America and commercial divisions rose to £112.7m (£110.7m) and gave an aggregate operating profit ahead 64 per cent, from £4.2m to £6.9m.

The consumer division increased turnover by 23 per cent to £43.9m (£36m) giving an operating profit of £2.7m (£800,000).

Tax more than doubled from £600,000 to £1.3m - an effective charge of 48 per cent of profits before the exceptional item - largely arising out of unrelieved overseas losses.

The charge included a £200,000 write back of advance corporation tax.

Currency movements contributed to a rise in gearing from 175 per cent to about 250 per cent.

The debts arise mainly from the 1989 takeover of Cushman in the US and other acquisitions.

Losses per share worked through at 9p, down from 17.3p last time.

A £1.8m (£1.5m) exceptional charge was provided for the write down of assets on the transfer of the Browner operation from Canada to the US.

One analyst said: "The company will not be able to trade out of its current difficulties." Ransomes pointed out, however, that its principal bankers and institutional lenders continued to be supportive.

Claremont Garments advances to £8.47m

By Jane Fuller

CLAREMONT Garments (Holdings), which last summer expanded its business with Marks and Spencer through the purchase of J&J Fashions, increased pre-tax profit by 35 per cent, from £6.28m to £8.47m, over the 12 months to December 26.

The share price gained 5p to close at a new high of 345p. It has climbed from 154p in July 1991, the month that Claremont emerged from Alexon, the retailer.

J&J and Alexander Milnes, a much smaller buy, added £27m to turnover, which increased 60 per cent to £31.5m (£50.9m) - of which about 56 per cent goes to M&S. The acquisitions were included for five to six months.

Claremont has about 10 per cent of the M&S ladies wear market, according to Mr Peter Wiegand, chairman.

A 2-for-5 rights issue raised £22.1m towards total spending of about £29 on acquisitions.

The extra equity limited the advance in earnings per share to 19 per cent at 16.4p (13.8p).

Mr Wiegand said three of

J&J's factories had been closed and some of its work transferred to Claremont factories. About 400 jobs had been shed.

Much of J&J's senior management had gone, he said. The group also parted company with Mrs Jennifer Rosenberg, one of the founders, in an out-of-court settlement involving the payment to her of roughly £100,000.

Mr David McGarvey, managing director, said the manufacturing side of J&J had been neglected. It had been a turnover and designed company rather than "exploiting the profitability that comes from volume".

J&J's pre-acquisition operating margins had been about 4 per cent compared with 13-plus at Claremont. It was hoped to get the combined group average up from about 8.5 to 10 per cent this year.

Net debt rose by £1m to £3m. On expanded shareholders' funds gearing stayed at about 15 per cent - lower than expected at the time of the acquisition.

A proposed final dividend of 3.95p makes a total of 7.35p (5.5p).

COMMENT

Claremont has benefited both from the resilience of M&S and from its own management rigour in wringing impressive margins from that business. The tantalising prospect of similar discipline being imposed on J&J has helped drive the share price forward. The only surprise in yesterday's results was the pleasant omelette of cashflow being much stronger than expected. Most of the acquisition debt plus £1.5m of reorganisation costs were rapidly cancelled out. For the future, apart from J&J, the main scope for organic growth seems to lie in exports to the continent. The corporate wear business has promise but is small and the M&S cocoon becomes a bit of a straitjacket when the group considers selling to other retailers. A more serious prospect for medium-term growth is that Claremont will acquire further M&S suppliers. A conservative pre-tax profit forecast of £11m this year gives a prospective p/e of nearly 19 times. This is well up with events, but it remains worth holding as a quality stock.

Tough US trading leaves JIB at £18.2m

By Richard Lapper

TOUGH trading conditions in the United States insurance market and international reinsurance markets depressed pre-tax profits at JIB Group, the insurance broker, to £18.2m in 1992, compared with £20.1m.

Lower interest rates also affected the result to leave earnings per share down 26 per cent, from 13.6p to 10.1p.

A final dividend of 5p is proposed, making a total for the year of 7.5p. Last year there was a single final of 5p.

"In difficult markets and difficult times we have not done too badly," said Mr Nick Cosh, finance director of the company, which is a subsidiary of Jardine Matheson Holdings.

Turnover increased to £175.9m (£168.9m). There was a lower contribution from the US of £79.5m (£80.6m), offset by increases in the UK and Ireland to £71.7m (£68.8m) and Asia Pacific to £24.8m (£21.5m).

Administrative expenses rose to £176.3m (£165.2m), partly because of a number of one-off costs.

The closure of the Philadelphia and New York offices cost £1.5m.

Although the dollar strengthened towards the end of the year, foreign exchange losses earlier in 1992 cost another £1m.

Income from associated undertakings rose to £2.26m (£416,000), and interest payable fell to £3m (£4.5m).

The Telegraph recommends purchase of Southam stake

By Maggie Urry

THE TELEGRAPH, the newspaper group 68 per cent owned by Mr Conrad Black's Hollinger Group, has written to shareholders giving details of the proposed £72.3m purchase of a stake in Southam, the heavily-indebted and loss-making Canadian newspaper group, from Hollinger.

The deal is subject to approval of shareholders other than Hollinger, a Canadian holding company, at a special meeting on March 30. The shares fell 3p to 330p.

The Telegraph's independent directors, advised by NM Rothschild, the merchant bank which handled The Telegraph's flotation last summer, are recommending the deal. Share-

holders with 8.3 per cent of the group's equity, more than a quarter of the non-Hollinger shares, have agreed to vote in favour.

In the circular shareholders were told that the deal would dilute earnings in the short term, although not significantly, and that The Telegraph would not receive dividends from its investment "until towards the end of 1994". It expects to equity account the stake, which will be held through a joint company owned 50:50 with Hollinger.

The independent directors said that the investment in Southam represented "a unique opportunity". Mr Joe Cooke, managing director of The Telegraph, said it would be able to influence Southam

through three directors nominated by Hollinger and The Telegraph.

He said Southam would benefit from recovery in the Canadian economy, from improving its marketing and cutting over-manning - with advice from The Telegraph - and could sell its non-newspaper divisions.

Hollinger agreed to buy the 22.5 per cent stake in Southam on November 8 last year at a cost of C\$258.6m (£145.2m), or C\$18.10 per share, a 15 per cent premium to the then market price. The deal was completed on January 8. The Telegraph will buy half that stake paying the same price as Hollinger did, although the Southam share price has since fallen to C\$13.50.

Anglia sets up joint ventures with HBO

By Gary Mead, Marketing Correspondent

ANGLIA TELEVISION has entered into three joint ventures with Home Box Office, a division of Time Warner, to produce and distribute television programmes and films internationally.

Under the terms of the deal, Anglia and HBO will jointly form Citadel Entertainment, which will undertake the business of Citadel Pictures, currently a division of HBO. Anglia will pay \$3.5m (£2.46m) in two stages for its interest in the new venture.

At the same time Anglia will receive, also in two stages, \$1.5m from HBO for a 50 per

cent interest in International Television Enterprises, currently a wholly-owned subsidiary of Anglia.

HBO will also acquire a 49 per cent voting interest in Anglia Television Entertainment, a new company which will undertake activities currently performed by Anglia's film and drama department. Anglia will receive about £250,000 from HBO, representing some 50 per cent of the value of Anglia's film and drama programmes currently in development.

The joint ventures are seen by industry analysts as mutually beneficial to Anglia and HBO, which serves more than 23m pay-cable television subscribers in the US.

CABLES • CIRCUIT PROTECTION

DELTA

	1992	1991
	£m	
Turnover	785.9	774.0
Profit before tax	55.0	64.1
Earnings per share	23.0p	27.0p
Ordinary dividend	14.0p	14.0p

Copies of the Annual Report & Accounts for the year ended 2nd January 1993, from which the above is an extract, are available from 25th March from the Secretary, Delta plc, 1 Kingsway, London WC2B 6XP. Telephone 071-436 3535.

ENGINEERING • INDUSTRIAL SERVICES

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Gary Allen, Chief Executive

BUILDING PRODUCTS

FULL YEAR RESULTS 1992

	1992	1991
Sales	£1,006m	£968m
Profit before tax	£68m	£73m
Earnings per share	13.6p	15.0p
Dividend per share	10.0p	10.0p

- Building Products — increased profits
- Drinks Dispense — record profits
- Fluid Power — hit by world recession
- Special Engineering — good year for valves and components

FLUID POWER

DRINKS DISPENSE

SPECIAL ENGINEERING

IMI

IMI plc, PO Box 216, Birmingham B6 7BA. Telephone: 021 356 4848

COMPANY NEWS: UK

IMI suffers 7% fall to £68m

By Paul Cheeseright,
Midlands Correspondent

IMI, the international engineering group, held the decline in its profits before tax for the 1992 year to 7 per cent. The pre-tax outcome of £58m compared with £73.2m last year. Earnings were 13.5p (15p) and the total dividend is maintained for the third year running at 10p via a final of 5.8p.

The stock market viewed the figures benignly enough to push the shares up 11p to 270p, checking the decline of last week when the shares dipped some 6 per cent.

Turnover advanced from £968m to £1.01bn, producing operating profits down on margin pressure to £75.6m (£78.1m). Interest payments increased from £5.8m to £8.4m,

reflecting both an increase in gearing over the year to 26 per cent (22 per cent) and, more significantly, foreign exchange variations towards the end of the year.

The group is now nearing the end of recession-induced rationalisation. "Major job losses, we think that is now behind us in 1992," said Mr Gary Allen, chief executive, noting that the net loss of jobs during 1992 was 1,100, taking the total payroll at the end of the year to 17,500.

"The high level of capital spending we have undertaken in recent years puts us in a good position to recover quickly in any general upturn in activity," said Sir Eric Pountney, chairman.

In the last financial year, IMI spent £54m on fixed capital

investments and £20m on acquisitions. Over the three years of recession its capital expenditure of £160m has been running at 1.5 times the rate of depreciation and its acquisition spending has reached £120m.

Of the main operating divisions, drinks dispense and fluid power were the strongest, underpinning operating profits. Earnings were lower in the fluid power and special engineering divisions, the last containing the troublesome titanium operations which continued to lose money.

COMMENT
Given a flat UK economy, dividing IMI's immediate future is the art of balancing the brightening US economic prospect against the darkening

continental European market. The group has helped itself to the extent that it has now, after heavy investment, sorted out its copper tube operations and is gaining market share. Titanium should stop losing money this year as the market firms, but fluid power remains a worry in Europe and the best year for selling building products in Germany has passed. Small wonder it is looking for expansion in the Far East. Still, drinks dispense looks strong and recent capital investment will flow through to the bottom line this year making 1993 pre-tax profits of £75m look feasible. That would produce earnings per share of 15.5p, giving the shares a prospective p/e of 17.4, high enough until the European clouds lighten.

Amersham expands in the US via \$69m buy

By Clive Cookson,
Science Editor

AMERSHAM International, the UK health science group, is to acquire United States Biochemical, a privately-owned supplier of reagents to the biotechnology and pharmaceutical industries, for up to \$69m (£48m) in shares and cash.

Amersham will pay \$52m immediately to the group of investors headed by Mr Thomas Mann who are selling USB. Further payments up to \$17m will follow over the next three years, depending on sales of USB products.

USB - founded 20 years ago in Cleveland - is known particularly for making enzymes that genetic researchers use to determine DNA sequences. It is expected to make pre-tax profits of \$3.6m in the year to April 30, on sales of \$36m.

"This represents a strategic step forward for our life science business," said Mr Bill Castle, Amersham chief executive. "Joining with USB will give us a leading position in both radioactive and non-radioactive sequencing and will provide critical mass in the vital American marketplace."

In 1990 Amersham bought the US-based Medi-Physics business for \$46m and sold its clinical reagents business to Kodak for \$44m.

Acquisitions help boost BPP to £7m

By Andrew Bolger

A DROP in spending on language training by large international companies restricted growth in 1992 at BPP Holdings, the education and training group.

However, pre-tax profits still increased from £5.39m to £7.08m thanks to a full-year contribution from acquisitions during 1991. Sales rose from £42.4m to £48.7m.

In language, the language training subsidiary, encountered increasingly difficult trading conditions. An exceptional charge of £850,000 covered redundancies and the closure of language schools in Japan and France.

Mr Richard Price, chairman, said this reorganisation would result in a more competitive business comprising 34 schools in 10 countries, although trading was likely to remain difficult in Japan and continental Europe.

Operating profits from language training were £357,000 (£1.16m) on turnover of £17.4m (£18.3m). A breakdown of profits and turnover showed publishing at £23.9m (£1.96m) on £14.3m (£3.53m), professional training at £2.7m (£1.88m) on £12.6m (£10.1m) and academic education at £306,000 (£494,000) on £4.36m (£4.42m).

Net cash at the year-end was £10.2m (£6.7m). In spite of considering a number of candidates, BPP made no acquisitions in 1992.

Earnings per share fell from 17.3p to 16p, thanks mainly to an increased tax charge of £2.67m (£2.09m). The group said that given the cash-generative quality of the business, it had decided to increase the final dividend to 5.5p, giving a total for the year of 5p (5.9p).

Price rises in pipeline as Rugby edges up to £57.6m

By Andrew Taylor,
Construction Correspondent

BUILDING MATERIAL price increases are starting to be forced through by producers according to Rugby Group, which supplies cement, joinery, steel and glass to the UK, European and US construction industries.

Rugby's share price rose by 6 pence yesterday, from 222p to 228p, after pre-tax profits edged ahead from £57.3m to £57.8m over 1992 despite deep recession in the UK construction industry.

Mr Peter Carr, managing director, said that there were clear indications that material producers believed the time was right to try to recover lost margins by pushing up prices.

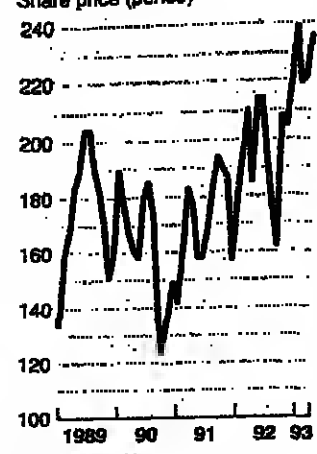
Increases announced at the beginning of this year of up to 13 per cent by British Steel and 8 per cent by Pilkington, the UK glass manufacturer, so far had held firm, he said.

"The closure of large manufacturing capacity means that supply and demand is coming back into line. With the prospect of revival in the housing market there appears to be a concerted attempt among manufacturers to make price rises stick."

Foreign manufacturers suffering from sterling's devaluation were in no position to undercut price moves by British companies. In the case of glass, continental European manufacturers had followed Pilkington's lead and raised their own prices by a similar amount according to Mr Carr.

Rugby Group

Share price (pence)



Source: FT Graphix

He said that steel, glass, plasterboard, timber and other product price rises could increase UK building material bills by up to 6 per cent this year. This could be damaging for contractors and sub-contractors which had taken on fixed-price construction contracts at little or no profit margin.

Rugby, Britain's third largest cement manufacturer with about 20 per cent of the market, needs to buy steel, glass and timber for its constructional steel, steel reinforcement and joinery businesses. Cement prices, unlike those for other building materials, have seen small rises during recession but have not been increased this year.

A 15 per cent fall in UK trading profits to £29.4m (£34.8m)

was offset by a 41 per cent increase in overseas profits from £16.6m to £23.4m. International profits were helped by the devaluation of sterling.

A 7 per cent increase in Australian dollar profits, for example, became a 20 per cent gain in sterling at year-end exchange rates.

UK cement profits fell 12 per cent to £16.8m following a 5 per cent fall in volume sales. Rugby said that it expected sales to decline by a similar amount in the current year.

Interest received rose from £4.43m to £4.82m and helped maintain earnings per share at 13.1p. An unchanged final dividend of 3.6p holds the total for the year at 6.45p.

COMMENT

Currency translations had a mixed effect on Rugby's results enhancing the sterling profits of overseas operations but depressing by £17m the value of cash reserves which during the year fell from £24m to £12m. Devaluation will reduce the amount of interest receivable in the current year offsetting further trading improvements in Australia and the US. As a result profits seem likely to show little change. Rugby is a well managed group, with a strong balance sheet and adequate dividend cover, which has shown itself capable of funding necessary capital expenditure out of cashflow. A prospective p/e of 18 on maintained earnings, however, suggests that the virtues have been recognised in the share price.

Delta hit by US cable problems

By Jane Fuller

WITHDRAWAL from an Australian business and continuing problems in US cables further undermined profitability at Delta, the electrical engineering group, last year.

Pre-tax profit for 1992 fell 14 per cent to £55m (£64m) on turnover of £765.9m (£774m). This followed about £3m of rationalisation costs at Surprenant, a US cables company badly affected by defence cuts, and a dent in profits of more than 16m in Australia.

Mr Robert Easton, chief executive, said disposals and closures in Australia accounted for 80 per cent of the £2.2m profit fall in the industrial services division, which made £12.8m pre-interest on £160.1m (£191m) sales.

Losses in North America

were the main factor behind a 33 per cent decline in profits in the cables division to £8.6m (£13.1m) on £263.8m (£279.4m) sales. The impact of severe competition in the UK was offset by exports.

The biggest profit earner was the engineering division, including plumbing products and control equipment. It rose to a record £22.2m (£21.3m) on £230.1m (£235.1m) turnover, thanks to continuing growth in continental Europe. However, continental demand slowed in the second half.

In circuit protection, profit recovered to £17.1m (£13.6m) on £132.7m (£110.8m) sales. New products, particularly a circuit breaker for industrial use, had improved market share.

The results included a £1.6m profit on a business disposal and a £2.7m currency

gain on an investment related to an aborted US acquisition. Mr Easton said Delta backed out of the purchase, worth about \$300m (£140m), because of a last-minute problem arising from the due diligence exercise.

It would have been debt financed, taking gearing to between 50 per cent and 60 per cent, as the group retains its aversion to equity issues.

Year-end gearing rose from 13 per cent to 18 per cent, on net assets of £322.2m. The main purchase was the outstanding 36 per cent stake in Delta Crompton Cable for £37m from BTR.

Earnings per share slipped from 27p to 23p. The proposed final dividend is held at 9.8p to give an unchanged total of 14p.

COMMENT

Delta faces another year of swings and roundabouts as recession in continental markets is expected to halt the record run in engineering and offset any gains from recovery in the UK and US. The pound's devaluation should help exports from the UK as well as providing gains in translation this year. Restructuring costs should also be lower this year.

The balance sheet is comfortable and an acquisition would certainly live up to views on the company, which has come to be seen as solid and exciting. A pre-tax profit forecast of £57m gives a prospective p/e of nearly 18 times after yesterday's 9p rise in the share price to 44p. This looks about right, bearing in mind the continuing impediment to a proper recovery in group profits.

Wiltshire cuts loss to £979,000

Wiltshire Brewery, the USM-traded brewer and distributor to which the US Group of India late last year gained management control, yesterday reported a reduced annual deficit.

On turnover at £2.47m for the 12 months to November 30 (£2.47m for 14 months), losses before tax were £979,000 (£1.39m), struck after exceptional charges of £297,000 (£460,000). Losses per share were 8.5p (15.93p).

At the operating level, however, the company returned to the black with profits of £38,000 (losses of £207,000).

The figures did not reflect December's £6.6m refinancing and purchase of 37 pubs. Mr Vijay Mallia, chairman, said that gearing had dropped from 354 per cent to 102 per cent on a pro-forma basis.

Mr Mallia attributed the improvement at the operating level to the conversion of loss-making houses into tenancies, thereby reducing overheads and generating rental income. Some 83 per cent of the estate is now tenanted. However, the company still has a bad debt problem.

The company plans to change its name to United Breweries.

Watmoughs rises 51% to £12m and wins magazine contract

By Paul Taylor

WATMOUGHS (Holdings), the Bradford-based printer, yesterday announced a 51 per cent increase in 1992 full year profits and said it detected a "slight improvement" in the UK newspaper colour supplement and magazine markets.

At the same time Mr Patrick Walker, chief executive, revealed that the group had won the contract to print the News of the World's Sunday colour supplement, Britain's biggest circulation magazine with a weekly print run of 5.2m copies.

Mr Walker said News International had signed a letter of intent for the group to begin printing the supplement in April next year, when the present contract with a German printer expires.

Watmoughs has yet to decide on whether to buy a new press to service the contract.

Pre-tax profits for 1992 increased to £12.2m (£8.1m) on turnover which rose to £118.9m (£107.4m) despite difficult trading conditions, industry excess capacity and pressure on margins.

After adjusting for the £22.3m rights issue early last year, earnings increased to 26p (20.6p). A recommended final dividend of 8.8p makes an 11.5p (10.5p) total.

The profit improvement reflected the recovery from a temporary downturn experienced in the 1991 second quarter, coupled with lower interest charges of £456,000 (£2.54m) following the receipt of the proceeds of the rights issue and lower interest rates.

Mr Walker said the group had managed to increase its share of the market for high quality long run colour supplements, magazines, mail order catalogues and retail brochures.

Export sales from the UK continued to grow reaching £5.96m (£3.75m) last year. Supported by its strong cash flow the group has been investing heavily in new technology and expanding its presence in continental Europe.

Capital expenditure last year totalled £59.3m including a substantial investment on new presses in the UK and £31.6m on the group's new gravure plant in Madrid which begins

printing next month. The group ended the year with net borrowings of £26m and gearing of 29 per cent (30 per cent).

COMMENT

Watmoughs has been investing heavily in its future. In the three years to December 1993 it will have spent £58m on capital investment to the UK and £46m in Spain and Hungary. The Madrid plant will begin with three titles, the group's recently acquired Hungarian subsidiary, Revals, already contributing profits and, helped by a weak pound, the group is winning business back from the Continent. Meanwhile in the UK it has won new orders for substantial retail catalogues and says it detects a upturn in the newspaper supplement and magazine markets. But even without a recovery, profits should grow to about £14.2m this year producing earnings of some 30p per share. The stock has been climbing since last summer and, after gaining another 15p to reach a new high of 62p yesterday, is trading on a lofty prospective p/e of 20.7.

Aminex/Tuskar

Aminex has increased its offer for Tuskar Resources to 3 new shares for every 11 Tuskar. This represents an increase of 50 per cent on the original bid, made on February 15.

CNT

Caisse Nationale des Télécommunications
FF 2,000,000,000
Floating Rate Bonds due 1997

Notice is hereby given that for the Interest Period 15th March, 1993 to 15th June, 1993 the Bonds will carry a Rate of Interest of 11.14453 per cent per annum, plus a Coupon amount of FF 284.80 per FF 10,000 Bond and FF 2,848.05 per FF 100,000 Bond. The relevant Interest Payment Date will be 15th June, 1993.

Bankers Trust Company, London Agent Bank

Appointments Advertising

appears every
Wednesday &
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Friday
(International edition only)

CANON INC

Advice has been received from Tokyo that the 92nd Ordinary General Meeting of Shareholders of the Company will be held at the Head Office of the Company, 30-2 Shimo-Ogino 3-Chome, Chiyoda-ku, Tokyo 100, on Tuesday, 30th March 1993.

Matters to be Reported
Report on the business report, balance sheet and statement of income and retained earnings for the 92nd business term (from January 1st, 1992 to December 31st, 1992).

Matters to be Resolved
Approval of the profit appropriation plan for the 92nd business term.
Item 2
Election of twenty seven Directors.
Item 3
Election of three Statutory Auditors.
Item 4
Granting of retirement allowance to Directors and Statutory Auditor to be retired.

Holders of Depositary Receipts of Canon (CDRs) and BCRs wishing to exercise their voting rights in respect of the Shares represented by the Receipts held by them are requested to lodge their Receipts with Hill Samuel Bank Limited by 30th March 1993, or with one of the sub-agents by 30th March 1993, when lodgement forms are available. Voting rights may only be exercised in respect of Depositary Receipts representing Ordinary Shares on the register as of 31st December 1992.

Copies of the full text of the Notice convening the meeting are available if requested.
Hill Samuel Bank Limited,
45 Beesh Street,
London EC2P 2LX.

SGS

SGS Société Générale de Surveillance
Holding SA
8, rue des Alpes CH-1211 Geneva 1

Offer of exchange of Bons de Jouissance category A for bearer shares. 1993 Annual General Meeting

1. Holders of Bons de Jouissance are reminded that the offer of exchange of Bons de Jouissance category A for bearer shares proposed at the Annual General Meeting held on May 14, 1992 expires on

Friday, May 28, 1993

Pursuant to the terms of the offer (the conditions of which were published on May 15, 1992 and which may be obtained from the Company or from the following banks: Union Bank of Switzerland, Pictet & Cie, Bordinier & Cie, Bank Julius Baer and Co Ltd, A, without par value and with coupon Nos 14 and above attached, may be exchanged, free of charge, for 5 bearer shares of SF 100 par value having a right to dividend for the 1992 financial year and thereafter.

The Annual General Meeting of SGS Société Générale de Surveillance Holding SA will be held on

Wednesday, June 9, 1993

at the Hotel Noge-Hilton, quai du Mont Blanc 19, Geneva.
In accordance with the provisions of article 11, paragraph 3, of the Articles of Incorporation, shareholders representing shares with an aggregate par value of no less than one million Swiss francs may request the inclusion of an item on the agenda provided such request is made in writing to the Company prior to Friday, April 30, 1993.

Geneva, March 10, 1993

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On behalf of the Board of Directors
The Chairman:
Elisabeth SALINA AMORINI

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On the 29th March 1993 the Financial Times will once again publish an up-dated survey that will take an in-depth look at finance and investment across a region that continues to excite interest amongst international investors.

The survey is timed to coincide with the opening of the Inter-American Development Bank meeting in Hamburg at which copies will be distributed to delegates.

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FT SURVEYS

CONTRACT ELECTRONICS MANUFACTURE

Tuesday March 16 1993

A rapidly rising proportion of electronic equipment is now manufactured on behalf of the big international suppliers by outside contractors. Paul Taylor probes the reasons for the emergence of this expanding force within one of the world's predominant industries

Farewell to sweat-shops

CONTRACT electronics manufacturing (CEM) has become the fastest growing sector of the European electronics industry and is on target to become a \$22bn global business by the mid-1990s.

In the UK a group of dedicated contract electronics manufacturers have successfully shaken off the second-rate "sweat-shop" image of sub-contract and assembly work in the 1960s by investing heavily in advanced production and test equipment, training and quality processes.

Today their big customers are high chip multinationals such as IBM, Sony, Bosch, Motorola, AEG, and Matsushita which require fast response times, flexibility and first class quality, as well as cost-effective manufacturing. These companies are using contract manufacturers as part of their global strategies to maintain and improve international competitiveness.

From humble beginnings the UK industry has entered what Mr Bruce Armstrong, managing director of SCI Europe, describes as its third phase - strategic global partnerships between OEMs and contract manufacturers which can provide full turnkey services from design and printed circuit board layout, through to product distribution.

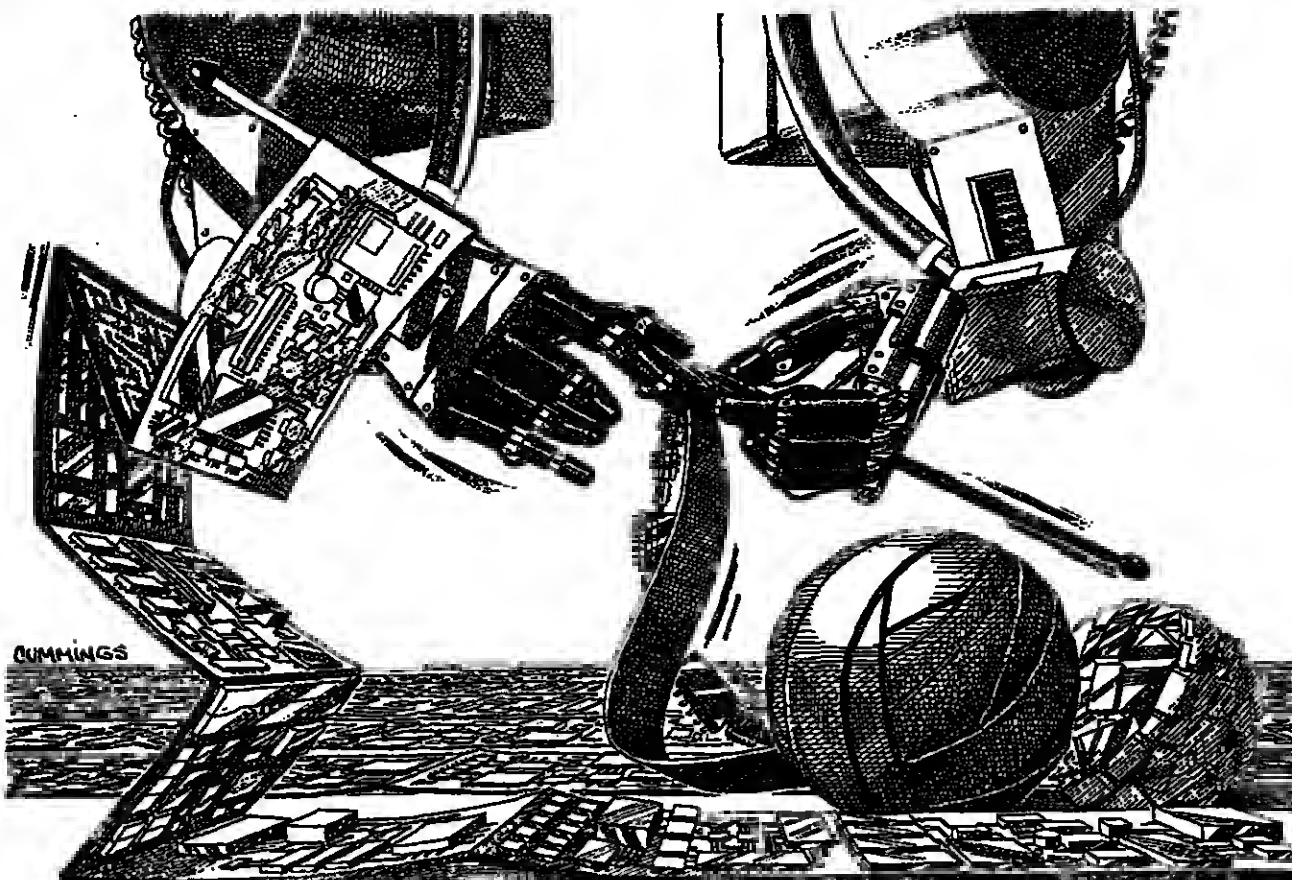
A handful of factors have fuelled the growth in CEM over the past decade. In partic-

ular, the pace of technological change has resulted in shortened product life cycles requiring increased manufacturing flexibility and worldwide manufacturing capability. In order to remain competitive in fast moving consumer-led markets companies have had to reduce the period it takes to bring new products to market.

At the same time electronic controls are replacing electromechanical devices in many consumer products such as cars and medical equipment whose manufacturers have little or no electronics manufacturing experience or capacity.

Meanwhile, the continuing push for smaller, more portable but more sophisticated products such as mobile phones and notebook computers requires greater silicon integration and results in more complex devices. These are best manufactured using advanced techniques for placing components on printed circuit boards such as surface mount technology which require expensive specialist machinery and expertise to design, assemble and test and which involve considerable "manufacturing risk" because of market volatility.

The trend towards CEM also mirrors the move towards buying in a wide range of service and other peripheral corporate functions, backed by the management theory that organisations should focus on their



"core competencies" and contract out every thing else - creating what some observers have called "the virtual corporation".

Recessionary pressures have forced some managements to reconsider the "make or buy" decision. But generally, although contract manufacturing can result in cost savings, most participants argue this should not be the primary motivation.

The arrival of the single European market has encouraged many Japanese and other original equipment manufacturers (OEMs) to set up locally in Europe. As MHM, a market research organisation based in Ayr, Scotland, noted in its latest study of the European CEM market, business from these companies "has fuelled spectacular expansion in at least one CEM house".

MHM describes the growth of the UK market in the 1980s as "spectacular". The turnover of

the six largest sub-contract companies in the UK, SCI, Race, Avex, AB, Philips, Welwyn and Timex, grew by an average 42 per cent per year between 1984 and 1990.

Growth has slowed considerably since then, in part reflecting the recession and the sharp price war in the computer and IT sector which accounts for a still large, but declining, proportion of the CEM industry order book - a trend which has been partly offset by increased demand from new customers in the automotive, telecommunications and industrial sectors.

According to the Association of Contract Electronics Manufacturers (AcEM), part of the Electronic Components Industry Federation (ECIF), formed in 1990 to provide a voice for the emerging industry, the overall UK market was worth about £650m last year, and is growing at an underlying annual rate of 10-15 per cent.

AcEM membership now totals 48 contractors representing 70-80 per cent of the UK CEM industry which, despite being capital intensive, employs around 10,000 people.

"Rapid growth over the last 10 years has resulted in a fragmented industry expanding on the back of a rapidly expanding electronics industry," said Mr Eric Luckwell, chairman of Datalink Services, a small Loughborough-based CEM, in a study of the UK market.

"The capability of these organisations ranges from the very high volume and complex technological process, such as surface mount technology and automatic component insertion, to the very low volume and simple labour intensive processes," he said.

Mr Derek Duffett, AcEM director, groups the UK CEM market into four groups.

● Large companies dedicated to contract electronics include SCI and Avex, Scottish sub-

sidaries of US groups, which are also multinationals in their own right and whose main business is high volume, low margin work for big OEMs.

Their particular strengths are their capacity, sophisticated automated manufacturing systems, substantial component purchasing power and worldwide facilities. "Our customers are global, so are we," says Carol Brannigan, Avex Electronic's European sales and marketing director and chairman of AcEM's Promotions Committee.

"European customers and global companies operating in Europe are telling us they need total product life cycle management services not just PCB assembly and test," she says. In response big CEMs are building what she calls "a transparent or seamless partnership" linking CEM and customer using electronic data interchange (EDI), integrated MRP (Materials Requirement

Planning) systems, CAD/CAM design systems and electronic mail.

● Medium-sized dedicated CEMs are the second group. These generally maintain close links with OEM design houses working in specialist applications areas, such as the industrial and professional markets. Almost half of AcEM's membership falls into this category with most companies employing between 100 and 500 people. They include Welwyn Systems, the contract electronics subsidiary of the TT Group which also acquired AB Contract Electronics last year, and Race Electronics.

● Small start-up companies, the third group, emphasise their flexibility and personalised service, particularly to entrepreneurial businesses which may want prototypes built and tested or require low to medium manufacturing volumes.

● The in-house contracting departments of original equipment manufacturers. These units have been created to fill spare capacity or diversify into new areas. Established players include Philips Circuit assemblies and Rank-Xerox Manufacturing Services. These companies often have access to specialised environmental and test equipment in design and failure analysis.

Recently they have been joined by other OEMs with excess capacity which, together with the arrival in Europe of new Far East competitors such as Flextronics, is causing concern in an industry which arguably already has excess capacity and thin margins.

"Presently the CEM industry can stand the additional capacity better than many other mature electronics sectors," said the MHM report, "but this situation will not continue indefinitely."

An industry shake-out and reorganisation is widely expected amid forecasts that the industry will become increasingly polarised between the high volume, low margin multinational CEMs, and the much smaller niche companies.

Mr Gordon Stewart, UK director of specialist management consultants Pittiglio

IN THIS SURVEY

□ Profiles: how Essex-based EDMS is achieving its corporate mission; Quantum, in South Wales, is an example of a successful management buy-out. PAGE 2

□ Outside sourcing: In the past decade, manufacturers have increasingly concentrated on their core activities and farmed out more work to subcontractors. In Japan, most electronics production is now carried out in this way. PAGE 3

□ Silicon Glen: James Buxton examines the considerable number of assembly plants established in Scotland by several of the world's leading electronics groups.

□ Profile: How SCI, of Huntsville, Alabama, a worldwide IT equipment supplier, grew out of the American space programme. PAGE 4

□ Changing technology: Paul Taylor explains the evolution of circuit board manufacturing methods and offers a glossary of some of the industry's most common terms. PAGE 5

Rabin Todd & McGrath, told an AcEM conference in October that the dominant feature of the CEM industry in the 1990s will be the performance gap between an emerging super-league of multinational manufacturers and a horde of increasingly marginalised smaller competitors.

Because the UK market is maturing most of the large CEMs are adopting the twin strategies of trying to win back business which has gone offshore, particularly to the Far East, while also expanding overseas themselves.

Armed with internationally accepted quality assurance standards and total quality management programmes the UK's leading CEMs have been stressing the importance of looking at total costs - including loss of flexibility and transport delays - in their attempts to win back offshore business, and have been having some

Continued on page 3

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CONTRACT ELECTRONICS MANUFACTURE 2

■ Profile: Electronics Design and Manufacturing Services

Targets are being achieved

A STATEMENT hangs on the reception wall of Electronics Design and Manufacturing Services' purpose-built headquarters at Maldon, Essex.

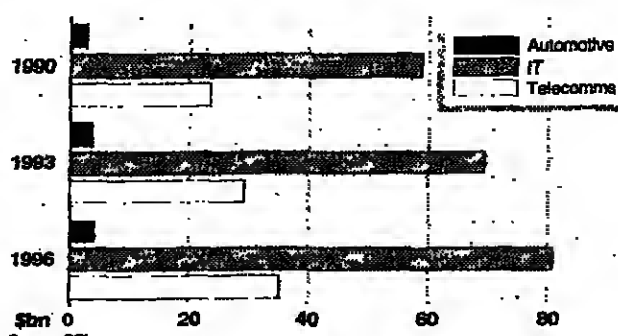
It says simply: "Our aim is to establish EDMS as a significant force in contract manufacturing, primarily focusing on the needs of multi-technology based companies. We will achieve this by providing a quality manufacturing facility, with a professionally minded, technically capable workforce, and by developing a 'Partnership in Production' with all our customers and suppliers."

EDMS appears to be well on the way to achieving its primary objectives. The company was originally a department within Industrial Control Services, supplying circuit boards for the UK-based international electronic safety systems group which obtained a Stock Exchange listing last year.

But it became a separate, fully owned ICS subsidiary in 1986 and has since grown quickly, moving into its custom-built 30,000 sq ft factory in 1990. Today, according to Mr John Reid, EDMS's managing director, only 10-15 per cent of its business comes from the parent company.

Although EDMS made a small operating loss in the year to May 31 last year, it has moved back into profit since then. In the first half it made an operating profit and should be profitable at the pre-tax level in the current second half, says Mr Andrew Leeser, group financial director. Contract manufacturing is, it seems, recession proof in terms

Key market growth



Source: SCI

of volume, but not in terms of margins.

EDMS's volumes have doubled in two years from £1m to £10m-£12m this year, reflecting growing interest in contract electronics in its prime computing, industrial, telecommunications, medical and consumer electronics markets.

Its customer base includes companies such as Acorn (EDMS produces motherboards for Acorn's educational computers), Reuters, Unicom and British Telecom. It exports its products throughout the UK and Europe where it distributes directly to Reuters's customers.

EDMS is a principally a niche player producing "specialised products in (relatively) small volumes," says Mr Reid. The service spans the range from prototype and small batch fast-turn around projects to medium volume production.

In particular, EDMS has targeted consumer goods manufacturers who are replacing

electro-mechanical controls and incorporating sophisticated electronics into their products for the first time.

Since they lack the capital equipment or in-house electronics expertise, they represent a prime opportunity for innovative contract electronics manufacturers whose design engineers can work with them and produce electronic controls based on the latest surface mount technology (SMT).

Mr Reid sees "a big growth opportunity" for companies whose core business relies on using SMT. Companies moving from mechanical to electronic controls "are going straight to SMT", he says.

These days EDMS can provide customers with a cad/cam service to lay out cards using the latest surface mount technology. It also has a product engineer who spends one or two days a week with customers helping to design products to ensure that when it comes to manufacturing, "we have

taken out a lot of cost".

Mr Reid, who is due to become chairman of the Association of Contract Electronics Manufacturers at this month's Napcon exhibition in Birmingham, calls this process "design for manufacturing" or "cost engineering".

EDMS is now working with three of its customers on new products from design to manufacturing using its fully computerised cad/cam system to support printed circuit board layout. One product is a spectrometer designed in conjunction with a customer which has transferred all its PCB business to EDMS.

EDMS is also working with a computer product design house manufacturing a product to its design for the European market in direct competition with Far East imports.

To reinforce the "partnership" between EDMS and its customers a programmes engi-

An offshoot of ICS, it now takes only 10-15% of its business from its parent company

neer is appointed to each new customer and retains full responsibility for that contract including its commercial, financial, technical and administrative aspects.

The recent rapid growth in the business means that EDMS has already outgrown its headquarters building which houses the company's £500,000 investment in fully automated in-line surface mount capabil-

ity using Dynapert and Mydata equipment, together with comprehensive in-circuit, functional and temperature stress testing.

Unlike big companies which need high volumes to support their heavy capital investment, EDMS's contract volumes are much smaller, but nevertheless often involve highly complex mixed technology boards. So EDMS uses slower, more flexible surface mount machines capable of handling a wide range of components together with a highly skilled workforce which can undertake hand assembly where required.

A second 7,000 sq ft building which is being renovated will be used for EDMS's growing board upgrade and repair service and, at the end of last month, the company moved into a third Maldon manufacturing unit dedicated to building complete systems.

EDMS has spent £300,000 on the latest surface mount and test equipment for the 30,000 sq ft factory which will create jobs for 85 people in addition to the 150 already employed by the company. All three facilities are linked and controlled by a computer network which controls all procurement, manufacturing and finance.

EDMS chose its location carefully. In the early days of contract manufacturing most customers supplied all the components on a "consignment" basis. It was therefore important to site the manufacturing facilities close to the original equipment manufacturers (OEMs) to minimise transport costs.

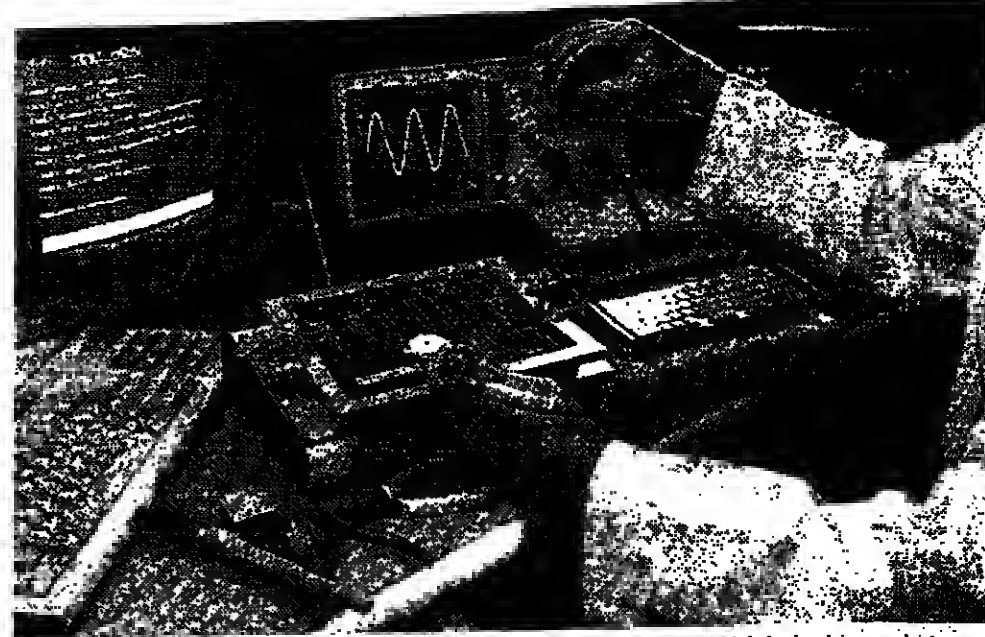
However, these days most customers rely upon the contract manufacturer to provide a full service including procurement. Physical location has become much less significant - particularly since most paperwork, and even design work, can be handled electronically using electronic data interchange (edi) systems.

Another distinctive feature of today's UK-based contract manufacturers is their commitment to quality standards. For example, all EDMS operations are governed by a company-wide quality management programme and all stages of administration, manufacture and testing are audited to internationally recognised quality standards.

EDMS is also working to maintain a high level of customer service. It has opened an office in Crangemouth, Scotland, to support its developing customer base in Scotland and Ireland. In addition, it has launched a sales drive to find business in new niche markets in continental Europe.

Mr Reid is very optimistic about the future. "Britain is the centre in Europe for contract manufacture," he says, and he is determined that EDMS will play a significant role in the development of European CEM.

Paul Taylor



Precision work at Quantum's plant in South Wales: emphasis on low volume and high-technology products

■ Profile: Quantum Electronics Manufacturing

Born with a silver spoon in its mouth

QUANTUM Electronics Manufacturing was born with an industrial silver spoon in its mouth.

Formed in January last year after a management buyout from Mitel Telecom, it inherited a purpose-built electronics plant in South Wales, the latest manufacturing equipment and a skilled and dedicated workforce used to high quality customer-driven manufacturing techniques.

The buyout, backed with £1.2m investment from 31, the Welsh Development Agency, Mitel and the Bank of Wales, was organised by a group of managers who had successfully reorganised Mitel Telecom's operations in Portsmouth, South Wales, following its acquisition by BT.

The Mitel reorganisation released space for the plant, considerable equipment and other resources. Initially in March 1990 the managers, led by Dr Terry Summers, the plant's materials director, won the backing of Mitel to establish a sub-contract manufacturing operation using the plant's surplus resources.

The new manufacturing operation concentrated on low volume high technology contracts encompassing responsiveness to its customers. But the business required more capital investment and management time than Mitel could spare, so the management buy-out was organised and approved at the start of last year.

Since then Quantum's workforce has grown from 39 to more than 60, turnover is running at an annual rate of £4m and, despite the recession, the young company is already trading profitably. "We are growing by the day," says Dr Summers, who is now Quantum's managing director. Recently 31, Mitel and British Coal Enterprise backed a £200,000 capital increase to



Terry Summers: conducting a successful management buyout

support further growth.

Its customers include National Transcommunications, Immos, the chip manufacturer, Research Machines, Encryta, Thermocouple Instruments and Rediffusion Simulation.

Although the company has between 15 and 20 customers who mostly require low to medium volume contract manufacturing using leading edge technology, sophisticated test equipment and advanced computer based manufacturing systems organised on a cellular basis.

Like many other smaller players in the contract manufacturing business Quantum is a niche player, mostly serving customers in the business, industrial and professional sectors. None of its customers manufactures the assemblies which Quantum makes. "We are their manufacturing department," says Summers.

Although Quantum does not design for its customers it does like its project engineers to be involved at the design stage to help ensure that the design is compatible with high quality and low cost automated manufacturing.

It also prefers to buy the components because Dr Sum-

mers says this gives Quantum more control over quality and its customers are usually happy because "more and more they are getting out of manufacturing".

Production is organised on a cellular rather than production line basis and capabilities include conventional hand assembly, automated assembly using plated-through-hole (PTH) components, surface mount technology (SMT), mixed technology and electro-mechanical assemblies.

Most contracts are in the 1,000-3,000 board range with values of between £500,000 and £1m although Quantum does some high tech, low volume work with contracts valued at as little as £100,000.

Where Dr Summers believes Quantum scores over some of its larger rivals is in being able to provide customers with a highly flexible personalised service using leading edge technology such as SMT "normally only associated with bigger companies". It can also handle extremely complex products.

"Quantum's roots in an international electronics corporation gives us a unique insight into the needs of the industry," Dr Summers declares in the company's sales literature.

"Our track record in the application of the most advanced manufacturing techniques will give you the competitive edge you need."

He also believes Quantum's niche business is more secure and less risky than that of many of the larger players. He argues, for example, that because volumes are low there is little incentive for customers to consider going offshore with their business. "They need people in the UK," he says.

Paul Taylor

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Partnership in an age of technical complexity

"The days of arm's length negotiations with choices based solely on lowest price and shortest delivery are over," he says.

Mr. Duffert, the AECM's director, acknowledges that for many managers, who are used to in-house manufacturing using bought-in piece parts

PHILIPS

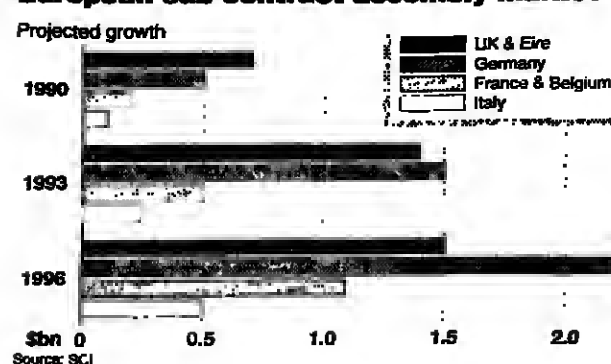
— The contract manufacturer dedicated to contract manufacturing

CONTRACT ELECTRONICS MANUFACTURE 4



East Kilbride employee part of a global industry

European sub-contract assembly market



ONE of the fruits of the US National Aeronautics and Space Administration (Nasa) programme in the 1960s was that it spawned a new generation of innovative electronics companies.

One is SCI, founded in Alabama by Olin B King, a former Nasa engineer who began a three-man business manufacturing flight simulators for the moon shots in his basement in 1961.

King realised, however, that there was not much volume in 16 moon shots. So he diversified the company, initially called Space Craft Inc., into building a wide range of electronic systems under contract.

By 1969, when the Apollo launch vehicle left the Kenn-

edy Space centre launch pad, it was carrying more than 400 SCI-built sub-systems providing vital instrumentation, communication and computer functions, including some in the lunar lander.

Eight years later, in August 1977, SCI built the plated-wire memories for the highly successful Voyager 2 spacecraft whose systems were still operating flawlessly more than a decade later.

When the original IBM PC made its appearance in 1981 it came with a SCI-manufactured motherboard. SCI also manufactured the Sinclair-designed Z88 computer.

By the mid 1980s SCI had become a Fortune 500 company in its own right. Today it

A LITTLE plant on the shores of Loch Ness that employs just six people is probably the most northerly outpost of Scotland's contract electronics manufacturing industry. Allgood Technology, at Fyriers near Inverness, uses surface mount technology to produce high value populated printed circuit boards (PCBs) in low volumes.

It was founded three years ago by Mr Peter Allgood, a digital engineer who took voluntary redundancy from BT at the age of 30 and moved to the Highlands from Birmingham in search of a better quality of life. The company now has turnover of £120,000 and is producing boards for products such as professional audio equipment.

Allgood Technology is at one end of the spectrum of the Scottish electronics industry, which employs 45,000 people, and which in 1991 accounted for 13 per cent of Scotland's employment in manufacturing and 21 per cent of its manufactured output.

The Scottish electronics industry is dominated by multinationals. It has original equipment manufacturers such as International Business Machines, employing 2,200 people making personal computers at Greenock, and Motorola, which produces both semiconductors and mobile telephone equipment at plants in East Kilbride and Easter Inch.

But there is also a large components sector, in which multinationals play the major role. In contract electronic manufacturing (CEM), Scotland has several of the largest operators in the UK - offshoots of Avex, SCI and Philips - and a number of smaller specialist producers. At the less sophisticated end of the electronics industry there are substantial busi-

nesses employing many people in assembly and manufacturing.

It is a frequent source of complaint in Scotland that indigenous Scottish-based companies account for a very small part of the industry - only about three per cent in terms of employment - and, according to a 1991 survey by Dr Ivan Turok of Strathclyde university, provide only 12 per cent of material inputs by value. This ignores the fact that most electronics plants in Scotland see themselves as part of a global or EC-wide industry.

Avex, for example, at East Kilbride, works for eight of the world's largest electronics companies (though like most CEM companies it refuses to name them), supplying their plants in Scotland, the EC and the US. It employs about 1,000 people and can design components to order, as well as manufacturing populated PCBs and assemble them into such things as telephones, personal computers and complex medical equipment.

In Dunfermline, Philips Circuit Assembly, part of the Dutch multinational, has a large plant producing populated PCBs for OEMs. About 50 per cent of its output goes to OEM plants in Scotland and about 35 per cent is exported. Mr Cliff Hargess, sales and marketing manager, says it has an advantage over other CEM companies because its surface mount

technology line can work to "extra fine pitch," with the space between components being as little as 15,000th of an inch. Philips employs 600 people.

The other major CEM company in Scotland is SCI which has a plant at Irvine which employs about 800 people, increased by taking on several hundred temporary workers at busy times. (SCI is dealt with in more detail in the article below.) Another multinational CEM company is Timex Electronics in Dundee, currently rebuilding its workforce after dismissing all

Electronics employs 45,000 people and represents 13 per cent of Scottish manufacturing

its 300 production workers after they refused a new pay and conditions package.

But multinationals are not the only key players in the Scottish CEM sector. A significant player is Keltex, part of the UK quoted Graseby group, which is based at Kelso in the Borders. It has been operating for 20 years and occupies a specialised niche in the market.

"We offer a complete service from concept design to turnkey delivery for OEMs," says Mr Bob Wardlaw, marketing director. Keltex does CEM work for companies such as BT, Post Office Counters, BOC, Smiths Indus-

tries and British Gas. It has annual sales of about £13m and employs 200 people.

Ms Carol Brannigan of Avex, who plays a leading role in the Association of Contract Electronics Manufacturers (ACEM), argues that Scotland's Silicon Glen, as it is called, has a strong infrastructure of suppliers and human skills. But she would like to see more component manufacturers come to widen the range of products available at short notice.

The picture of the Scottish electronics industry which emerges is one of close cooperation between OEMs and CEMs as well as component suppliers, many of which are only a handful of miles apart.

Avex works closely with Prestwick Holdings, a quoted Scottish manufacturer of raw PCBs. Another important indigenous Scottish company in this field is Exacta at Selkirk.

The trend is for OEMs to subcontract increasing quantities of their work in order to hold down their own overheads and let other companies bear the strain of ramping up and then perhaps running down demand. However, there are also signs that OEMs are beginning to use their facilities to do CEM work for others.

Digital, which makes PCs at Ayr, recently began assembling and testing microchips there for test houses and

for other manufacturers. In addition it will be using its recently installed £1.7m surface mount technology line to assemble modules for other manufacturers. Its subcontract work to date has so far been worth about £1m.

At the less sophisticated end of production, Scottish-based companies do considerable business in assembling personal computers and other PC components. Minter, an electronics manufacturer owned by Murray International Holdings, which is 88 per cent owned by Mr David Murray, one of Scotland's leading entrepreneurs, has for several years been assembling PCs for Scottish-based OEMs such as IBM and Compaq.

Now, to meet the big increase in demand for IBM's PCs since it introduced a new range of products and slashed its prices, Minter is expected to build a large, 400,000 square foot plant at Gourrock, close to IBM's Greenock facility, for PC assembly, with IBM likely to be involved in financing the £13m project.

In an unusual development the ranks of companies assembling PCs for IBM have been joined by the transport group LEP International, which has for some time handled much of Greenock's distribution and has now started operating a PC assembly line. Another important player in the Scottish electronics industry is Fullarton Fabrications, a subsidiary of the UK's Laird Group, which employs about 1,400 people in a network of plants at Irvine. Fullarton does sheet-metal work (building boxes for PCs and other computers) and assemblies keyboards and other components, some of which are exported to Ireland, Brazil and the US.

Profile: SCI of Huntsville, Alabama

Creature from outer space

SCI's major worldwide IT customers in the year to June 30 last year included IBM, Seagate Technology and Conquer Peripherals, which together accounted for almost half its total revenues. However, SCI is now a major diversified manufacturer for both the Government and commercial markets. It designs, manufactures, markets and services electronic products for OEM (original equipment manufacturers) customers in many industries including the aerospace, telecommunications, medical and banking sectors.

Its investment in electronics manufacturing technology is enormous. Overall the group, which began to install surface mount technology (SMT) production lines in 1985, had 75 fully automated SMT assembly lines in operation by mid 1992 together with 34 traditional lines using the older PTH (plated-through-hole) technology.

The group is divided into five geographic regions each with multiple plants manufacturing components, sub-assemblies and finished products for customers, but also increasingly offering a full "turnkey" option including design, engineering, purchasing, manufacturing, distribution and support services if required.

The growth of SCI's international operations, including those in Europe, directly reflects the increasing globalisation of the world electronics industry. SCI followed its OEM customers overseas in order to maintain its global manufacturing relationships.

For example, SCI's European region comprises two manufacturing facilities, one in Irvine, Scotland, and the other in Fermoy, County Cork, in the Irish Republic.

Both sites reflect the establishment of significant off-shore manufacturing bases by global OEMs over the past

decade. In Scotland, SCI followed customers such as IBM, San Micro systems and Mitsubishi which needed to establish operations in Europe and were attracted to the region by a range of incentives.

Similarly the Fermoy plant, which employs 300 people, was set up in 1989 to provide electronic assemblies to Irish manufacturing operations of multi-

national OEMs such as Dell Computer which set up operations in Ireland as part of their global manufacturing strategies.

"They all want to manufacture close to the market because it gives flexibility," says Mr Bruce Armstrong, SCI senior vice president in charge of the European division.

SCI's size and dispersed operations are a significant advantage when dealing with large multinational OEMs because it can offer customers considerable flexibility. If a customer's market or manufacturing need changes by location or demand, production can be switched to any SCI plant in a matter of days.

For example, a complete new SMT line can be flown in from Huntsville and, says Armstrong, "be up and running within two weeks". Because modern contract manufactur-

ing is capital intensive the cost differential between different regions is not usually significant. "These days the cost is a given, but it is flexibility that counts," when it comes to holding on to customers, he says.

Nevertheless he accepts that the European plants have to be able to match the Far East on the basis of "landed" or total contract price - including those costs which are often overlooked such as transport, inventory and other less tangible items such as delays and inflexibility.

It is a measure of the success at Irvine in controlling overheads and other costs while providing flexibility that it has recently succeeded in winning some contracts back from the Far East.

The 120,000 sq ft Scottish plant was set up in 1984, mainly to supply IBM's Greenock PC operations. Today it employs about 800 people although, like most other large contract electronics manufacturers, SCI also uses a pool of casual labour and the workforce is expanded by several hundred temporary workers at busy times.

Equipment at Irvine includes 12 Fujitsu SMT lines, each costing about \$1m, four Universal PTH lines and three system configuration lines. Currently 80 per cent of output is SMT, 15 per cent PTH and 5 per cent even newer technologies such as COB (chip on board). But by the turn of the century Mr Armstrong expects the proportions to be 75 per cent, 10 per cent and 15 per cent respectively.

The product mix is also changing. Five years ago 90 per cent of production was for the IT industry. However the plant has broadened its customer base. It now represents about 70 per cent, telecommunications 20 per cent and automotive 10 per cent with telecommunications and the automotive sectors growing rapidly.

SCI has also expanded its range of services and increasingly sees itself as being in a beneficial partnership with its customers. Some customers still only require a consi-

derable manufacturing service - they supply all the materials. However, Mr Armstrong says the "more enlightened" OEMs have long since moved towards much broader "turnkey" contracts where services can range from product engineering and design for manufacturing, through procurement, manufacturing and testing to distribution.

SCI designs and manufactures some products completely. For example, it designs and builds its own PCs, which are then badged by two big computer companies. Mr Armstrong acknowledges that there is some temptation for SCI to widen its business and sell products under its own name. However, he adds, "in the end it's about doing what you are good at". And for SCI that is being expert at capital intensive, high technology, flexible contract manufacturing.

In order to maximise flexibility while minimising costs SCI uses automated manufacturing systems and electronic data interchange (EDI) to provide sophisticated links with its customers and suppliers and to interconnect its own plants.

"The reason we are efficient is that each plant is a profit and loss centre. They have to make a profit," says Mr Armstrong. The two European plants export 50 per cent of their production to continental Europe, and the percentage is rising so SCI is likely to build a new plant in Europe soon, probably in France.

When any of its plants reaches full capacity SCI builds another rather than expanding existing facilities. This is because it believes that overheads increase quickly when a plant becomes too large. "Otherwise you become an OEM," says Mr Armstrong. "In our business small and medium is beautiful."

Paul Taylor

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BRUCE ARMSTRONG, head of SCI Europe: closer to the market

national OEMs such as Dell Computer which set up operations in Ireland as part of their global manufacturing strategies.

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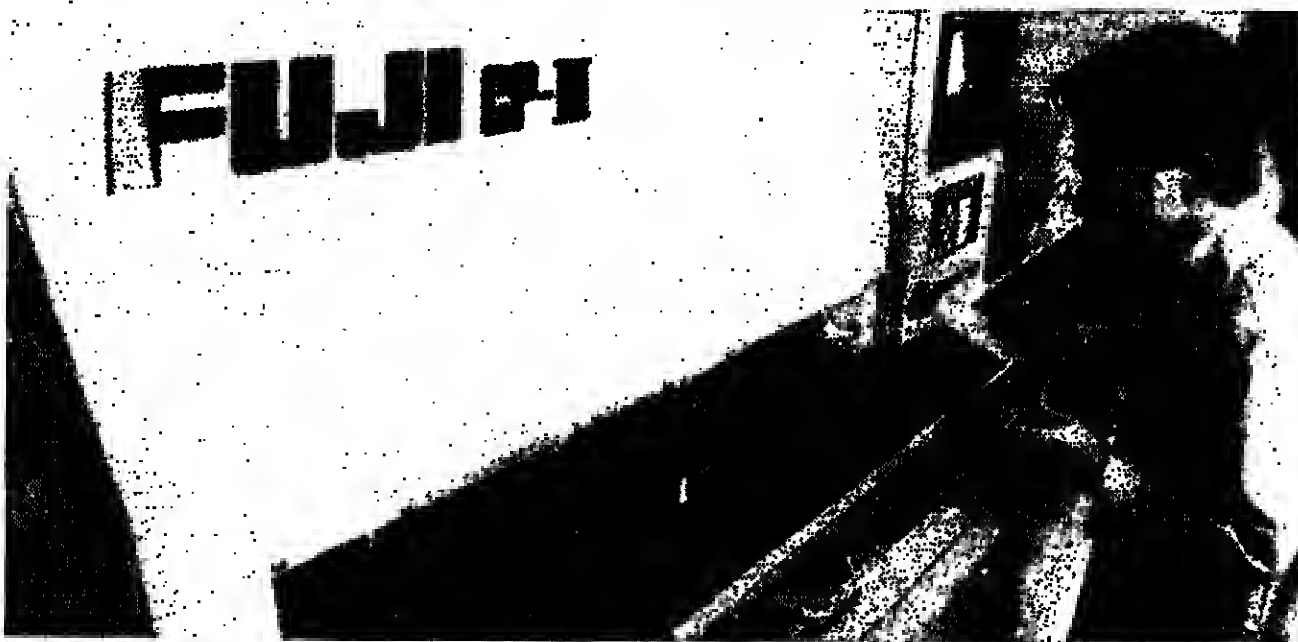
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CONTRACT ELECTRONICS MANUFACTURE 5



This Japanese-made machine, at Avex, East Kilbride, places the surface mount on to the circuit board

Paul Taylor keeps abreast of the bewildering changes in technology

A world built on silicon

OVER the past decade the electronics revolution has reached almost all industries enabling the development of a wide range of new consumer and business products and services.

The personal computer, fax machines, satellite television, mobile telephony, medical scanners, compact-disc players, anti-lock brakes and engine management systems for cars are among the many products which have been made possible by recent advances in semiconductor technology.

Even more sophisticated applications will soon emerge, including personal communications, video-telephones, crash avoidance systems and car navigation aids. The pace of change is accelerating and silicon technology will continue to be the engine of change and innovation.

Higher-speed devices will be integrated and packed closer, in smaller, more complex and reliable packages which cost less. But to turn these basic building blocks into useful products requires very expensive specialist machinery, expert knowledge and the application of the latest computerised techniques.

Many large companies whose core business is not primarily electronics will lack state-of-the-art equipment and expertise to take advantage of these changes.

Others will focus on design and marketing rather than manufacture. In either case the opportunities for the specialist contract electronics manufacturer are substantial.

Perhaps more than any other single factor the growth of contract electronics manufacturing has been fuelled by advances in technology - and by the switch to SMT (surface mount technology) in particular.

From the late 1950s, when transistors and printed circuit boards (PCBs) replaced valves, until the mid-1980s almost all PCBs were assembled using conventional PTH (pin-in-hole) or plated-through-hole technology.

Individual components are inserted either by hand or automatically into plated holes in the circuit board and molten solder is then forced up through the hole using a "wave" solder machine. When the solder dries it attaches each component to the circuitry on the board.

However, since the mid 1980s, SMT has become increasingly popular. In SMT solder paste - a putty-like mixture of minute solder balls mixed with flux - is screen

Production methods

Printed through hole

No of leads: 16

Surface mount

No of leads: 64

Solder

Substrate

Solder

Substrate

TERMINOLOGY

● ASIC: Application Specific

● Integrated Circuit

● COB: Chip on Board

● DIP: Dual In Line Package

● IC: Integrated Circuit

● MCM: Multi Chip Module

● PCB: Printed Circuit Board

● PTH/PTH: Pin-In-Hole/Plated-Through-Hole

● QFP: Quad Flat Pack

● SMT: Surface Mount

● Technology

● SOIC: Small Outline

● Integrated Circuit

● TAB: Tape Automated

● Bonding

printed on to circuit terminals

or pads on the circuit board.

The ICs (integrated circuits)

and other miniature components

are placed, or "onsetted",

on to the solder paste using

highly accurate automatic

placement equipment. The solder

paste is then melted or

"reflowed" which creates the

joint between the component

and the circuit board.

SMT has some significant

advantages over the traditional

method. These include smaller

size, increased automation,

lower production costs, better

performance and higher reliability.

However there are also

some disadvantages.

In particular, SMT "pick and

place" equipment must be very

accurate, requires skilled

programming and is costly. A typical

automated high volume

SMT line costs around \$1m, a

significant barrier to entry in

the contract manufacturing

business and an incentive for

OEMs to subcontract their

electronics manufacturing.

Mr Derek Duffett, director of

the Association of Contract

Electronics Manufacturers

(ACEM), recently noted that

the advent of SMT had raised

the investment level needed to

enter the business and was one

of the major reasons for the

trend towards contract electronics

manufacturing.

According to figures from

Motorola, the US electronics

group, two years ago 70 per

cent of the world consumption

of integrated circuits was for

PTH components. About 20 per

cent was of SMT components

with the remaining 10 per cent

shared by other emerging technologies.

Reflecting the fact that contract electronics manufacturers tend to be at the leading edge of technology, many in the UK already report that SMT output has overtaken traditional PTH, although a lot of boards are hybrids - combining both technologies.

The switch to SMT has often been overstated, but most industry participants believe that by 1995 about half of all components sold will be of the SMT variety, and that by the end of the decade SMT will have emerged as the clearly dominant technology.

Nevertheless by then other new technologies which have been in the development stage for many years will have also reached the market. They are needed because the performance and density requirements of electronics systems will begin to exceed the capabilities of discrete chip packaging, like SMT. To overcome this will require new "interconnection techniques".

The latest new technique, which is already being used in the electronics industry in Japan, the US and occasionally in the UK, is called TAB (tape automated bonding). In this method a lead frame is attached to "humps" on the edge of the silicon chip in a process known as "inner lead bonding".

The chip and its leads are then sealed or encapsulated in a glue-like substance called "glob-top" and mounted on a reel, similar to a 35mm camera film. These tiny devices can also be placed on to little trays called "slide carriers". The components are then attached to a circuit board using thermo-sonic means or conventional reflow soldering.

Another packaging method called COB (chip on board) is very similar to TAB but no lead frame is used. Instead the tiny silicon chip is placed directly on to the circuit board or "substrate" and then attached using a special "die attach" glue. Individual wires are then bonded to terminals on the chip and connected to the pads on the substrate. The whole assembly is then encapsulated in glob-top.

Both TAB and COB provide greatly improved electrical performance than earlier technologies and allow increased component packing densities on the board - leading either to smaller boards or greater functionality. By the end of the decade they are expected to account for up to one fifth of all component sales.

The latest packaging technology

is called MCM (multi chip module). An MCM is made up of several bare silicon chips mounted on the substrate. Then, using COB techniques, the chips or "die" are connected to circuitry much smaller and more carefully routed than those on PCBs. These MCMs provide much higher performance than the same chips mounted conventionally on a circuit board.

In addition to these changing methods of assembly, the printed circuit board itself is also changing. Already TFT (thick-film technology), flexible circuits and three-dimensional substrates have emerged as means to further increase component density.

Using these new technologies requires even more complex factory infrastructure and sophisticated handling techniques. Optical recognition and correction systems on the machines which place the components become more necessary as the space between leads (the pitch) becomes narrower.

At the same time this places even more stringent demands on manufacturers' processes and quality improvement programmes such as zero defect and statistical process control (SPC), both advanced quality manufacturing techniques increasingly required by customers. This in turn means most manufacturers invest very heavily in sophisticated automatic testing equipment.

In order to achieve the greatest efficiency and flexibility with their equipment many contract manufacturers have installed electronic data exchange (EDI) and computer management systems which often tie into those of their customers and suppliers.

Meanwhile, in order to keep up with the advances in silicon technology manufacturers must update and replace their equipment frequently. This means there is often little time to recover capital costs and considerable pressure to keep the machinery working 24 hours a day. But although speed is an important factor in choosing equipment, manufacturers also stress the need for reliability, capability and flexibility.

Finally, although electronics generally has a good environmental record, electronics manufacturers, including those in the contract industry, are having to focus on environmental issues. For example the use of chloro-fluorocarbons (CFCs) in the cleaning stage of SMT board assembly is being phased out.

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COMMODITIES AND AGRICULTURE

Sugar storms to three-year highs

By David Blackwell

WORLD SUGAR prices, already moving ahead on successive reductions in the Thai crop estimate, surged to the highest level for nearly three years yesterday on news that the storms sweeping up the eastern seaboard of the US had hit Cuba.

In New York the May raw sugar contract was up 0.95 at 11.50 cents a lb in late trading, having touched a peak of 11.83 cents earlier. In London the August white sugar contract closed at \$297.50 a tonne, up \$13 on the day.

However, analysts in London were cautious over the damage to Cuba's crop, which was already expected to be well down on last year's 7m tonnes.

Chicago wheat rallies

By Laurie Morse in Chicago

CHICAGO WHEAT prices rallied yesterday in response to Friday evening's announcement that the US Department of Agriculture would ship 520,000 tonnes of wheat and 87,000 tonnes of rice to Russia by July under a food aid programme.

The USDA will have to buy the grain from the open market as government stockpiles have been depleted.

Commercial grain shipments have been at a standstill since November, when Russia began to miss interest payments on its US-backed grain loans.

At midsession yesterday old-crop wheat futures prices were up 6 cents per bushel, with wheat for May delivery trading at 339. Prices for delivery later

Nestlé seeks direct milk supply from UK farmers

By David Blackwell

NESTLÉ, THE UK subsidiary of the Swiss food group, yesterday offered contracts to 8,000 dairy farmers over its factories for direct supplies of milk when the Milk Marketing Board statutory monopoly ends some time next year.

The move follows the announcement last month by Northern Foods of plans to set up the Northern Milk Partnership, a co-operative venture which hopes to recruit more than 5,000 farmers to supply the company with up to 2bn litres of milk a year worth £500m.

Nestlé, which buys nearly 5 per cent of UK milk, aims to attract enough farmers to sup-

French fish and potato protests stepped up

By Alice Rawsthorn in Paris

FRENCH FISHERMEN and potato farmers yesterday stepped up pressure on France's beleaguered socialist government, now only ten days away from parliamentary elections, with fresh outbreaks of unrest throughout the country.

A "commande raid" of Etaples fishermen caused between FF4m and FF5m (\$490,000-\$660,000) of damage in a dawn raid on a fish warehouse at Boulogne-sur-Mer. They set fire to cargoes of imported fish outside the warehouse, then ransacked trailers of fish from Denmark and Ireland.

The mood of France's fishing ports has become increasingly heated in recent weeks as fishermen have escalated their protests against imports of cheap fish. Fishermen's leaders have vowed to continue the dispute until Thursday's meeting of European Community fishing ministers in Brussels.

However, one group of Breton fishermen today plans to stage a "humanitarian and pacifist" protest by delivering six tonnes of fish to a food bank outside Paris to be distributed to the needy through the Salvation Army and other voluntary organisations.

Meanwhile potato farmers continued their battle against EC agricultural reform by staging a tractor demonstration at Quimper yesterday morning during which they blocked the streets with 400 tonnes of potatoes. This followed similar protests in other towns last week.

The government also faces problems at the docks. Some of the largest French trading ports yesterday came to a standstill as dock workers responded to calls for a 24-hour national strike in protest at modernisation plans.

Venezuelan oil deal for BP

By Deborah Hargreaves

BRITISH PETROLEUM has agreed with Venezuela's state oil company PDVSA to bring the Federales oilfield in the Orinoco delta back into production. The field has been shut since 1988. BP believes it can bring it back into production soon with output rising to 20,000 bpd by 1997.

The agreement marks the first upstream involvement of a foreign oil company in Venezuela since 1976.

Indonesian cocoa thrives as prices languish

William Keeling reports on the one big producer that is still increasing its output

THE WORLD cocoa industry is in a state of crisis, with prices at record lows in real terms. But consumers and producers continue to bicker about a new International Cocoa Organisation (ICCO) withholding scheme to support the market.

Bucking the trend, however, is Indonesia, which remains remarkably bullish about cocoa's prospects. While output from major producers such as Brazil and Malaysia is in decline, the archipelago's output is rising inexorably.

In 1980, the country produced just 18,000 tonnes of specialty "fine" cocoa, which by 1993-94 had picked up to 32,000 tonnes and by 1997-98 to 65,000 tonnes as farmers began to plant "bulk" cocoa trees.

Production doubled again by 1990-91 and the current crop year, ending September 30, is forecast at 230,000 tonnes (of which 15,000 tonnes will be fine cocoa) making Indonesia the world's largest producer behind the Ivory Coast, Ghana and Brazil. Nor has Indonesia's cocoa boom begun to subside. Traders confidently expect production to exceed

Delegates to the International Cocoa Organisation, which began its council meeting in London yesterday, showed little inclination to return to discussing the cocoa pact only ten days after their Geneva meeting. They decided to leave consultations until later in the week, reports Reuters.

400,000 tonnes a year by the end of the decade, taking Indonesia into second place.

Mr Ibrahim Hasan, chief executive of the Indonesian Cocoa Association (Inca) says the roots of the boom go back to the 1970s when high prices led to interest among small-holder farmers.

Many of the plantation workers in Malaysia's cocoa-producing state of Sabah were Indonesians who smuggled seedlings back when returning home. In addition, the government and private agricultural companies set up seedling nurseries.

This led to a dramatic change in the country's production base. In the 1970s, cocoa production was split

between state plantations (90 per cent) and private plantations (10 per cent). State plantations now account for only 25 per cent of the crop, while private plantations provide 15 per cent and smallholder farmers 60 per cent.

High productivity has allowed cocoa to be remunerative for farmers, despite the collapse of international prices. Mr Hasan estimates the yield in Sulawesi, the centre for smallholder production, at about 1.5 tonnes a hectare, five times the level of some West African producing countries. He estimates the yield in north Sumatra at slightly below 1 tonne a hectare.

"Indonesians are a force in cocoa. They're not on the periphery, which even two years ago they were," explains one London cocoa trader. Other producers and the ICCO, however, have been slow to pick up on Indonesia's sudden increase.

As Mr Hasan observes: "If you look at all the ICCO documents, Indonesia is still classified as a 100 per cent fine cocoa producer". One reason for the

ICCO's failure to update records may be that Indonesia has yet to join the organisation, a fact that has significant implications for any future ICCO price support scheme.

"Indonesia is the lowest cost producer and it's not willing to participate in any withholding scheme. It is that much more difficult to work," one cocoa broker points out.

Brokers estimate a withholding scheme must encompass 80-85 per cent of world production to have any chance of supporting prices. Indonesia already accounts for 10 per cent of world production and is likely to have a 15 per cent share by the end of the decade.

Indonesian producers, however, are reluctant to join the ICCO, for as one official explains: "We are very worried that if we become a member our production programme may be constrained by outside factors".

Indonesian producers are confident that cocoa prices will pick up with or without an ICCO scheme in place as the industry enters a period in which world demand exceeds

annual output. They are, therefore, more concerned with restructuring the domestic industry to take advantage of higher demand than with the need for international co-operation.

The main thrust of the next five years will be to improve quality, say Inca officials. Indonesian beans have a relatively low fat content and farmers tend to ferment their crop inadequately. As a result, Indonesian cocoa sells at a discount to the world market price.

"We have to be really concerned about quality if we are to fulfil the demand of industry," warns Mr Hakim Wasono, Inca's deputy chairman. The task may not be easy - that Inca has yet to get its own offices is a reminder that Indonesia's cocoa industry is still in its infancy.

Inca officials, however, are brimming with confidence. In instances when farmers have mimicked West African fermentation and sun-drying techniques Indonesian beans "get almost a Ghana-style taste profile" and can compete among the world's best, says Mr Hasan.

Avoiding the pitfalls of amenity agriculture

Most successful ideas for diversifying farm enterprises quickly become oversubscribed

CHARLES BENNETT organises children's parties on his 50-hectare (120-acre) farm between Oxford and Thame. The entertainment includes pony rides, looking at lambs, collecting eggs from nest boxes under the free range hens, treasure hunts around the farmyard and tractor trailer rides around the fields, all culminating with tea in the hay barn.

The children, who are between three and ten years old - "they get too difficult to control after that", says Mr Bennett - love the temporary freedom of the farm and getting dirty. Parents are only too happy to pay him for providing the facility. And incidentally, in case any Food Safety Official begins to worry about Mr Bennett's ability to provide food to the high standards they require, he insists that the parents provide a picnic. All he does is to allow the children to eat it in his barn.

This activity comes under the general heading of diversification, which farmers have been encouraged to explore in recent years as the government has sought to divert resources from the production of food perceived to be in surplus. But the truth is that farmers who enjoy having a pocket of land where they can do what they like, like Mr Bennett, are where some decided to offer bed and breakfast for passing

travellers and signs appeared at farm gates in the hills and moorlands of Britain.

Charges were modest and country-loving guests could not believe the value for money compared with hotels. Comfortable beds and slap-up farm breakfasts combined to create a demand for such accommodation and more and more farmers joined the bandwagon. The number of beds increased, the standard of bedroom offered rose, in many cases to include en suite bathrooms, the costs of providing the services rocketed and charges had to go up. In many of those areas expensive uprated bedrooms now stand empty for most of the year.

It is a classic case of a good idea that has been overdone and it shows how fragile is the balance between success and failure when diverting resources from the farmer's basic task of producing food to exploiting a niche market, which is necessarily more limited in potential.

Another concept that became popular a few years ago but now seems to have run out of steam is pick-your-own. Fruit-growing is inescapably labour-intensive. You cannot mechanise the picking of strawberries and expect them to be of sufficient quality to grace the best tables although it is now possible to pick them by machine if

they are destined for the jam pot. And getting the quantity and quality of labour when it is needed has become increasingly difficult over the years.

Someone, I don't know who, had the brilliant idea that if you could persuade the public to pick their own you could charge less for it and if they picked sub-standard produce they would only have themselves to blame.

All through the 1970s and early 1980s the idea spread like wildfire across the country. But just like h & h it has been overdone, with too many PYOs chasing too few customers.

Some PYOs farms are still doing well. But many more are closing for lack of punters, who prefer, it appears, to pay inflated supermarket prices for the convenience of having their produce pre-packed.

I should not pretend, however, that I am immune to the temptation to diversify. Even as I write, the farm men are converting a range of redundant farm buildings into horse stables in the hope that the local riding fraternity will want to pay us money to keep their animals in them. Having seen how easy it is to get it wrong I have no illusions about the dangers. We are therefore controlling the costs of the investment rigidly.

The one certainty about agri-

cultural diversification is that it will cost money; but it is by no means certain that it will make money. Even if a feasibility study suggests that there is potential for a farm to diversify in a certain direction there is little doubt that it will be copied by other farmers and overdone within a few years. Such is the nature of farmers.

Even the Ministry of Agriculture seems to have got that message at last. Five years ago the minister launched a scheme to grant aid for diversification on farms. The money was specifically directed towards feasibility studies and marketing and 1,500 farmers have so far received £2m. There are a further 750 diversifying farmers in the pipeline whose schemes have been approved but who have not yet had the cash.

But a few weeks ago the prospect of more such grants was withdrawn. For the fact is that too many farmers try to diversify from financial weakness rather than strength in the vain hope that it will solve all their problems.

It is said, moreover, that the banks are increasingly warning farmers against such activities because many of the clients from under whom they are now having to pull the rug are the ones who have spent big money on diversification.

WORLD COMMODITIES PRICES

COCOA - London POX

	Close	Previous	High/Low
Mar	696	678	694-677
May	710	690	710-692
Jul	723	702	722-704
Sep	735	714	735-717
Nov	755	734	755-736
Jan	774	753	774-755
Mar	787	767	787-768
Jul	800	780	794

Turnover: 3022 (8900) lots of 10 tonnes
 ICCO indicator prices (2000 tonnes), daily price for Mar 12 695.40 (\$77.34) 10 day average for Mar 15 707.59 (71.93)

COFFEE - London POX

	Close	Previous	High/Low
Mar	975	957	975-952
May	925	915	925-908
Jul	883	864	883-864
Sep	855	836	855-837
Nov	818	801	818-794
Jan	827	813	827-801

Turnover: 1952 (1641) lots of 5 tonnes
 ICO indicator prices (55,000 cwt per pound) for Mar 12 Comp. daily 85.09 (\$6.10) 10 day average 85.81 (\$6.13)

POTATOES - London POX

	Close	Previous	High/Low
Apr	32.5	32.2	32.0
May	35.0	34.0	32.0
Jun	35.0	34.0	32.0

Turnover: 13 (112) lots of 20 tonnes.

SOYABEANS - London POX

	Close	Previous	High/Low
Jun	142.00	142.00	142.00

Turnover: 25 (29) lots of 20 tonnes.

FRESH - London POX

	Close	Previous	High/Low
Mar	1445	1450	1455-1445
Apr	1428	1435	1445-1428
May	1395	1400	1405-1395
Jun	1365	1370	1375-1365
Jul	1335	1340	1345-1335
Aug	1305	1310	1315-1305
Sep	1275	1280	1285-1275
Oct	1245	1250	1255-1245
Nov	1215	1220	1225-1215
Dec	1185	1190	1195-1185
Jan	1155	1160	1165-1155
Feb	1125	1130	1135-1125
Mar	1095	1100	1105-1095

Turnover: 142 (142) lots of 10 tonnes.

GRAINS - London POX

	Close	Previous	High/Low
Mar	141.00	142.00	141.00
Apr	143.25	144.00	143.25
May	144.50	145.00	144.50
Jun	145.75	146.00	145.75
Jul	147.00	147.50	147.00
Aug	148.25	148.50	148.25
Sep	149.50	149.75	149.50
Oct	150.75	151.00	150.75
Nov	152.00	152.25	152.00
Dec	153.25	153.50	153.25
Jan	154.50	154.75	154.50
Feb	155.75	156.00	155.75
Mar	157.00	157.25	157.00

Turnover: Wheat 148 (148), Barley 10 (42), Oats 10 (100) tonnes.

PUGS - London POX (Cash Settlement) p/g

	Close	Previous	High/Low
Mar	118.0	115.0	118.0
Apr	118.0	115.0	118.0
May	118.0	115.0	118.0
Jun	118.0	115.0	118.0
Jul	118.0	115.0	118.0
Aug	118.0	115.0	118.0
Sep	118.0	115.0	118.0
Oct	118.0	115.0	118.0
Nov	118.0	115.0	118.0
Dec	118.0	115.0	118.0
Jan	118.0	115.0	118.0
Feb	118.0	115.0	118.0
Mar	118.0	115.0	118.0

Turnover: 15 (12) lots of 3,200 kg

LONDON METAL EXCHANGE

	Close	Previous	High/Low
Aluminium	1144.45	1151.52	1147.5/1147
Cash	1144.45	1151.52	1147.5/1147
3 months	1157.68	1173.74	1159.69/1157

Copper, Grade A (2 per tonne)
 Cash 1508.00
 3 months 1534.25
 6 months 1550.50
 9 months 1566.75
 12 months 1583.00

Lead (2 per tonne)
 Cash 278.75-279.50
 3 months 285.00
 6 months 291.25
 9 months 297.50
 12 months 303.75

Steel (2 per tonne)
 Cash 2895-2905
 3 months 2910-2920
 6 months 2925-2935
 9 months 2940-2950
 12 months 2955-2965

Turnover: 3022 (8900) lots of 10 tonnes
 ICCO indicator prices (2000 tonnes), daily price for Mar 12 695.40 (\$77.34) 10 day average for Mar 15 707.59 (71.93)

LONDON BULLION MARKET

	Close	Previous	High/Low
Gold (100 oz)	328.50	328.50	328.50
Open	327.75	328.00	327.75
Close	328.50	328.50	328.50
Afternoon fix	328.00	328.00	328.00
Day's high	328.50	328.50	328.50
Day's low	327.75	327.75	327.75

Turnover: 13 (112) lots of 20 tonnes.

LIVE LBS MEAT GOLD LENDING RATE (Vs US\$)

	1 month	2 months	3 months	6 months	9 months	12 months
1 month	2.54	2.54	2.54	2.54	2.54	2.54
2 months	2.54	2.54	2.54	2.54	2.54	2.54
3 months	2.54	2.54	2.54	2.54	2.54	2.54
6 months	2.54	2.54	2.54	2.54	2.54	2.54
9 months	2.54	2.54	2.54	2.54	2.54	2.54
12 months	2.54	2.54	2.54	2.54	2.54	2.54

GOLD COMBS

	Close	Previous	High/Low
Kruggerend	327.50-330.00	328.00-330.00	327.50-330.00
Maple leaf	328.45-340.00	329.00-340.00	328.45-340.00
New Sovereign	78.00-81.00	78.00-81.00	78.00-81.00

TRADED OPTIONS

	Close	Previous	High/Low
Aluminium (50.7%)	1144.45	1151.52	1147.5/1147
Strike price 5 10m Apr	1144.45	1151.52	1147.5/1147
1150	1144.45	1151.52	1147.5/1147
1175	1144.45	1151.52	1147.5/1147

COPPER (Grade A)

	Close	Previous	High/Low
2100	76	76	76
2200	76	76	76
2300	76	76	76
2400	76	76	76
2500	76	76	76
2600	76	76	76
2700	76	76	76
2800	76	76	76
2900	76	76	76
3000	76	76	76

CRUDE OIL (Light 42,000 US gals/bbl)

	Close	Previous	High/Low
Mar	20.15	20.25	20.15-20.25
Apr	20.15	20.25	20.15-20.25
May	20.15	20.25	20.15-20.25
Jun	20.15	20.25	20.15-20.25
Jul	20.15	20.25	20.15-20.25
Aug	20.15	20.25	20.15-20.25
Sep	20.15	20.25	20.15-20.25
Oct	20.15	20.25	20.15-20.25
Nov	20.15	20.25	20.15-20.25
Dec	20.15	20.25	20.15-20.25
Jan	20.15	20.25	20.15-20.25

New York

	Close	Previous	High/Low
Gold 100 troy oz, \$/troy oz	328.50	328.50	328.50
Mar	328.50	328.50	328.50
Apr	328.50	328.50	328.50
May	328.50	328.50	328.50
Jun	328.50	328.50	328.50
Jul	328.50	328.50	328.50
Aug	328.50	328.50	328.50
Sep	328.50	328.50	328.50
Oct	328.50	328.50	328.50
Nov	328.50	328.50	328.50
Dec	328.50	328.50	328.50
Jan	328.50	328.50	328.50
Feb	328.50	328.50	328.50
Mar	328.50	328.50	328.50

SILVER 5,000 troy oz, \$/troy oz

78	279.25-9.50	282.5-83	30,253
0	289-88.5		
Total daily turnover 7			
50	5905-10	5850-55	40,844
	5980-85		
Total daily turnover 3			

Equities firmer ahead of the Budget

By Terry Byland,
UK Stock Market Editor

A TRADING week likely to be dominated by today's Budget speech in the UK parliament, but also by hopes for cuts in interest rates both in Germany and in Britain, made a confident start yesterday. Ex-dividend adjustments in several blue chip shares restrained the day's gain in the FT-SE 100 index to 6.5, but for these technical factors, the rise would have been twice the reported figure.

Equity strategists expect Mr Norman Lamont, the UK chancellor of the exchequer, to announce some fairly moderate tightening of fiscal policy today, but believe he will avoid any risk of jeopardising the fragile recovery in the UK economy; economic optimism was encouraged by news that UK manufacturing output increased by 0.3 per cent between December and January.

At the same time, a further cut in UK base rates is certainly "on the agenda" and London has become significantly more confident of a reduction in German rates following the recent trimming of the Bundesbank's money market rates.

Early falls in the Footsie reflected the ex-dividend adjustments in such leading names as ICI, Barclays, RTZ

and Abbey National. Hardly a sector was immune from these pricing factors and the Footsie dipped 7.2 to within 9 points of the 2,900-mark in early trading.

However, with the March future on the FT-SE 100 index still positive with only a few days' life left in the contract, shares soon rallied and moved slowly ahead. At best the market was more than 12 Footsie points up, before interest died

away towards the close of the final pre-Budget trading session in equities.

The closing reported showed the FT-SE 100 at 2,922.4 for a net gain of 6.5. Seaq trading volume slipped to 578.1m shares from Friday's 768m. But all the signs have been that retail, or genuine investor, business in equities has remained high, reflecting improved confidence in prospects for economic recovery and further interest rate cuts.

The FT-SE Mid 250 index gained 12.5 at 3,112 yesterday, and non-Footsie business made up nearly 72 per cent of the day's total.

On Friday, retail business was worth £1.54bn, bringing a total of £7.78bn for the week. The increased level of retail business has now extended for the past five months and has

significantly improved levels of profitability among London-based securities firms.

Underlying confidence in the outlook for interest rates across Europe was reflected in gains in shares in UK property and building and construction companies yesterday. Rises were strongest in UK building groups with interests in Germany. London's hopes of lower rates in Germany were not discouraged yesterday by a repetition of strong anti-inflation views by the president of the Bundesbank.

A further indication of the positive mood underlying the stock market came from bid-related activity, both in the leisure and property sectors. A market raid was mounted on shares of Owners Abroad by Thomas Cook, the German-owned travel agency, ahead of today's closure of the £290m hostile bid by Airtours.

The latest developments in Hong Kong were outweighed for UK investors by profits and an excellent dividend payout by HSBC Holdings.

Account Dealing Dates	Mar 15	Mar 16	Mar 17
New Order	Mar 15	Mar 16	Mar 17
Order Confirmation	Mar 15	Mar 16	Mar 17
Order Execution	Mar 15	Mar 16	Mar 17
Order Confirmation	Mar 15	Mar 16	Mar 17
Order Execution	Mar 15	Mar 16	Mar 17
Order Confirmation	Mar 15	Mar 16	Mar 17
Order Execution	Mar 15	Mar 16	Mar 17

FT-SE Actuaries Share Indices THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2922.4 +6.5	3112.0 +12.5	1424.95 +3.61

	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23	Mar 24	Mar 25	Mar 26	Mar 27	Mar 28	Mar 29	Mar 30	Mar 31	Mar 31
FT-SE 100	2922.4	+0.2	2915.9	2953.4	2962.7	2470.7	8.20	4.14	20.64	19.96								
FT-SE MID 250	3112.0	+0.4	3095.5	3121.8	3117.8	2461.8	6.63	4.07	19.07	12.67								
FT-SE 100-250	1424.95	+0.2	1428.4	1431.6	1444.9	1201.9	0.29	4.12	20.28	8.99								
FT-SE SmallCap	1561.21	-0.1	1562.0	1567.6	1560.7		3.21	4.09	20.77	7.33								
FT-SE SmallCap ex Int. Treas.	1569.10	-0.1	1569.12	1572.2	1569.01		3.24	4.09	20.77	7.33								
FT-A ALL-SHARE	1424.95	+0.3	1421.34	1437.25	1438.12	1188.05	6.23	4.12	20.58	8.75								

	Mar 15	Mar 16	Mar 17	Mar 18	Mar 19	Mar 20	Mar 21	Mar 22	Mar 23	Mar 24	Mar 25	Mar 26	Mar 27	Mar 28	Mar 29	Mar 30	Mar 31	Mar 31
1 CAPITAL GROUP(11)	951.78	+0.5	948.83	952.57	948.44	791.43	5.85	4.44	22.38	8.76								
2 Baring PLC(11)	966.72	+2.3	944.84	942.37	958.45	947.43	5.38	5.47	25.82	1.15								
3 Corbridge Construction(29)	807.09	-0.1	806.94	810.33	813.87	876.33	5.38	5.98	30.01	3.51								
4 Broomfield(14)	2719.10	+0.7	2699.05	2738.59	2742.09	2454.44	6.37	5.34	24.52	6.47								
5 Echnon(35)	2578.41	+1.4	2543.13	2580.68	2551.81	1812.09	6.18	3.31	20.47	15.46								
6 Engineering Services(7)	358.00	+0.8	354.91	360.99	359.31	338.37	8.88	4.26	12.89	10.01								
7 Engineering Services(7)	357.22	+0.5	353.82	358.30	354.91	347.77	8.97	4.18	18.35	2.92								
8 Metals & Metal Forming(11)	309.87	+1.4	305.67	307.31	308.84	329.17	4.44	3.26	32.74	0.55								
9 Metals(18)	398.50	-0.6	401.79	404.78	407.28	316.33	5.29	5.91	29.53	4.92								
10 Other Industrial(16)	2100.54	-0.8	2115.55	2123.20	2094.02	1801.02	5.54	4.18	21.75	27.76								
11 CONSUMER GROUP(23)	1739.34	+0.1	1733.58	1749.18	1750.77	1621.71	6.78	3.45	18.40	7.75								
12 Breweries and Distillers(28)	2016.20	+1.3	1989.09	2001.52	2001.02	2034.98	8.25	3.76	14.50	10.40								
13 Food Manufacturing(22)	1446.49	-0.4	1452.08	1466.43	1471.34	1246.65	7.20	3.71	17.35	5.92								
14 Food Retailing(18)	2312.90	+0.7	2308.37	2308.73	2307.20	2554.85	7.67	3.17	15.96	2.51								
15 Health & Leisure(29)	3841.53	-0.4	3859.36	3916.36	3922.63	4177.03	6.05	2.11	19.18	22.51								
16 Hotels and Restaurants(28)	1338.74	+0.8	1329.60	1338.58	1363.78	1287.16	5.98	5.14	22.35	14.46								
17 Media(23)	1877.88	-0.2	1880.56	1895.16	1903.16	1511.67	5.49	2.86	22.62	10.03								
18 Packaging and Paper(23)	851.12	-0.6	846.28	852.23	852.22	741.04	6.33	3.87	19.50	10.33								
19 Stores(29)	1167.98	+0.6	1161.46	1169.58	1168.58	1030.95	6.20	3.12	21.41	3.02								
20 Textiles(20)	802.64	+0.8	802.38	803.36	803.16	850.09	6.09	3.54	15.37	2.82								
21 OTHER GROUPS(142)	1522.99	-0.1	1523.90	1543.79	1543.29	1185.99	8.02	4.27	17.32	7.02								
22 Chemicals(27)	1558.20	+0.7	1546.95	1574.74	1584.00	1344.07	5.41	3.12	22.81	0.96								
23 Chemicals(23)	1535.70	-2.1	1568.28	1571.12	1581.12	1449.52	5.72	4.78	22.19	19.93								
24 Composites(11)	1460.21	+0.7	1471.01	1494.74	1516.58	1319.00	7.13	5.49	15.85	12.31								
25 Transport(19)	2946.14	+0.5	2932.37	2956.11	2971.50	2327.80	7.26	4.05	16.66	7.23								
26 Transport(19)	1749.98	+0.2	1737.41	1756.48	1756.57	1138.99	12.45	4.37	10.33	16.54								
27 Telephone Networks(4)	1758.88	+0.4	1749.60	1758.25	1751.04	1352.96	7.50	3.88	17.38	1.63								
28 Water(13)	3561.16	-0.1	3567.10	3600.35	3584.66	2298.49	12.68	4.57	6.78	1.83								
29 Miscellaneous(32)	2480.97	+0.9	2445.98	2474.50	2468.05	1801.11	6.58	4.29	18.95	2.41								
30 INDUSTRIAL GROUP(35)	1479.67	+0.2	1476.25	1480.00	1480.37	1274.48	7.02	3.95	17.76	7.55								
31 Oil & Gas(18)	2408.07	+0.4	2389.91	2435.96	2441.74	2024.06	5.96	5.29	21.43	23.60								
32 "OTHER" SHARE GROUP(35)	1564.77	+0.3	1560.85	1577.14	1571.13	1344.38	6.91	4.09	18.13	6.72								
33 FINANCIAL GROUP(39)	983.30	+0.3	981.87	986.85	1001.01	888.54	3.09	4.56	15.54	9.20								
34 Banks(18)	1340.18	-0.1	1341.24	1380.15	1378.40	848.94	4.05	4.21	31.88	17.16								
35 Insurance(Life)(6)	2027.02	+0.7	2023.35	2043.25	2048.86	1417.63	2.50	4.50	70.64	21.10								
36 Insurance(General)(7)	458.78	+0.7	453.55	457.46	458.75	441.48	5.02	1	2.39									
37 Insurance(Broker)(8)	845.06	-1.9	829.33	845.30	845.30	845.30	6.05	4.53	18.41	7.81								
38 Merchant Banks(8)	508.14	-0.2	509.56	512.88	512.88	449.25	6.96	3.77	18.68	2.52								
39 Property(28)	787.85	+1.8	754.19	758.89	753.84	698.78	7.30	5.46	17.72	1.35								
40 Other Financial(23)	346.69	-0.1	347.84	349.36	349.40	238.33	6.33	4.43	20.76	6.11								
41 Investment Trusts(107)	1458.05	-0.1	1460.18	1478.28	1478.64	1182.56	2.29	2.99	43.76	9.17								
42 FT-A ALL-SHARE(109)	1424.95	+0.3	1421.34	1437.25	1438.12	1188.05	6.23	4.12	20.58	8.75								

Hourly movements	Open	High	Low	Close	High/Low	Low/High
FT-SE 100	2920.0	2921.0	2922.0	2922.4	2923.3	2918.8
FT-SE MID 250	3094.7	3099.4	3105.1	3112.0	3103.1	3108.5
FT-SE 100-250	1425.9	1441.1	1444.4	1442.6	1442.6	1440.3
Gross dividend yield (ACT at 25% FT-SE 100x145)						

FT-SE Actuaries 350 Industry Baskets	Open	High	Low	Close	High/Low	Low/High
Automotive	1552.5	1552.7	1551.0	1552.7	1553.3	1551.4
Health Care	1141.8	1142.7	1141.0	1142.7	1143.3	1141.4
Water	1475.0	1475.5	1474.0	1475.1	1475.7	1474.2
Banks	1259.5	1262.8	1261.1	1262.0	1262.6	1261.4

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 0HL. The FT-SE Actuaries Share Indices are calculated on a daily basis, covering a range of electronic and paper-based products relating to these indices. It is available from FT-SE 100 at the same address. The FT-SE 100 index is calculated on a daily basis, covering a range of electronic and paper-based products relating to these indices. It is available from FT-SE 100 at the same address. The FT-SE 100 index is calculated on a daily basis, covering a range of electronic and paper-based products relating to these indices. It is available from FT-SE 100 at the same address.

LONDON SHARE SERVICE

BRITISH FUNDS - Cont.	Open	High	Low	Close	High/Low	Low/High
British Funds - Cont.						

Other Fixed Interest	Open	High	Low	Close	High/Low	Low/High
Other Fixed Interest						

Continued on next page

Owners raided by Cook

THE BATTLE for control of Owners Abroad, the UK tour operator fighting a hostile £290m bid from its smaller rival, Airtours, took a new twist yesterday as Thomas Cook made an early raid in the market to capture an 8.4 per cent stake in Owners.

The move by Thomas Cook, which is controlled by German travel group LTV, adds further spice to the bid battle which many in the market believe is now too close to call. The Airtours offer closes today at 1pm. Last week, Thomas Cook made a tender offer for 12.5 per cent of Owners at 150p a share, conditional on the Airtours bid lapsing.

Dealers suggested that Thomas Cook may have purchased its stake from UBS Phillips & Drew Fund Management, paying 152 1/2p a share for lines of 9m, 2.1m and 1.9m shares. However, leisure specialists said the fact that the institution was considered supportive of the present management meant that the dawn raid changed little in the complex arithmetic over who was likely to win.

But there were also suggestions that Gartmore Investment Management had sold a 1.3 per cent stake interest, part of its 7 per cent stake in Owners, to Thomas Cook. It was enough to unsettle some investors, worried that the German move implied a shift in favour of Owners' current owners, who have so far been seen in the market as losing the PR battle to Airtours. Owners closed 9 down at 138p after

HSBC strong

The continuing wrangling over political reforms ahead of the handing over of power in Hong Kong in 1997 caused only a mild ripple of unease in shares of HSBC, holding company for the merged Hongkong and Shanghai Banking and Midland Bank. The bank's shares were among the best performers on the London market after it revealed a much better than expected final dividend.

The Hong Kong market itself came under heavy pressure after Chinese officials attacked British proposals for the Colony, causing a general mark-down in London of leading UK groups with significant interests in Hong Kong.

HSBC's profits were slightly disappointing, according to dealers, but the dividend was ahead of the most optimistic forecasts, pitched around the 15.5p to 16p mark.

The shares were tentatively marked up to 60p by dealers wary of the steep retreat on the Hong Kong market. Buyers moved in quickly, however, and drove the shares up to a close of 63p for a net gain of 20. Turnover was a good 7.7m.

Other leading UK stocks heavily influenced by events in Hong Kong performed relatively well. Standard Chartered Bank settled a net 4 higher at 704p ex-dividend, while Cable and Wireless, which derives more than half of its earnings from Hong Kong, settled only a fraction off at 712p, having fallen to 688p at the outset of trading. Inchcape rose 5 to 588p.

US storm damage

The massive damage wrought by what are seen as the worst storms across the east coast of the US this century led to an initial mark-down of a UK composite insurance sector buffeted in recent years by a series of natural disasters, capped by last year's Hurricane Andrew.

But the mark-down and ensuing selling pressure proved short lived as insurance specialists concentrated instead on the likelihood that the latest disasters would trigger the long swatted upturn in US insurance premiums. The performance of shares in the biggest US insurance groups when Wall Street opened gave credence to London's view that premiums would almost certainly be raised. General Re was up around 32%, Marsh &

		+ or -	1983 high
State	Spain	-	

[illegible]

[illegible]

[illegible]

Wheat									
new Southern No.	-5%	133.2	155.2	163.8	-159.289				
new Northern	-5%	79.34	75.54	90.79	-139.77				
white hard red & low	-3%	209.5	209.5	224.9	-112.07				
yellow U.S. & Can.	-5%	41.46	41.46	44.34	-146.179				
dark Red of France	-3%	55.22	57.91	61.49	-129.04				

Number of hauls	<i>A. balearicum</i> (%)	<i>A. balearicum</i> + <i>A. balearicum</i> + <i>A. balearicum</i> (%)
1	100	0
2	50	50
3	33	67
4	25	75
5	20	80
6	17	83
7	14	86
8	13	87
9	11	89
10	10	90

INITIAL CHARGE: Charge made on sale of unit. Used to defray marketing and administrative

● Current Unit Trust prices are available from FT Cityline. For further details call (071) 873 4378

Continued on next page

* Current Unit Trust prices are available from FT Cityline. For further details call (071) 613 4374.

[illegible]

SEC	Offer	Yield	SEC	Offer	Yield
Price	Price	Rate	Price	Price	Rate
Global Asset Management Corp.	5302.00	4.55	Global Asset Management Corp.	5302.00	4.55
GAM Type	5319.37		GAM Type	5319.37	
Global Asset Management Corp.	5302.00	4.55	Global Asset Management Corp.	5302.00	4.55
GAM Type	5319.37		GAM Type	5319.37	

[illegible][illegible][illegible]

<p>JERSEY (REGULATED)</p> <p> Bond Cash Inc. 56 13.38 13.37 Bond Securities Inc. 56 13.38 13.37 Standard International Fund 56 0.99 1.00-0.01 Int'l Emerging Markets 56 0.99 1.00-0.01 </p>	<p> DRIVERS' LICENSURE GROUP 56 23.14 P.O. Box 271, St. Helens, Jerry Auto Sales Corp. 56 14.99 15.00 P.O. Box 271, St. Helens, Jerry Auto Sales Corp. 56 14.99 15.00 P.O. Box 271, St. Helens, Jerry Auto Sales Corp. 56 14.99 15.00 </p>	<p> Stampers Parties Locomotive 56 99.21 H&S Card & Paper 56 99.21 Stampers Parties Locomotive 56 99.21 H&S Card & Paper 56 99.21 </p>	<p> Pacific Basin Growth Fund 56 0.07 Pacific Basin Growth Fund 56 0.07 Pacific Basin Growth Fund 56 0.07 Pacific Basin Growth Fund 56 0.07 </p>	<p> London Portfolio Services Group 56 1.36 London Portfolio Services Group 56 1.36 London Portfolio Services Group 56 1.36 London Portfolio Services Group 56 1.36 </p>	<p> Taiwan Tracker Fund 56 1.78 Taiwan Tracker Fund 56 1.78 Taiwan Tracker Fund 56 1.78 Taiwan Tracker Fund 56 1.78 </p>
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SEC	Offer Price	Yield	Barclays Investment	SEC	Offer Price	Yield	Barclays Investment
14	100.00	10.00	14	100.00	10.00	14	100.00
15	100.00	10.00	15	100.00	10.00	15	100.00
16	100.00	10.00	16	100.00	10.00	16	100.00
17	100.00	10.00	17	100.00	10.00	17	100.00
18	100.00	10.00	18	100.00	10.00	18	100.00
19	100.00	10.00	19	100.00	10.00	19	100.00
20	100.00	10.00	20	100.00	10.00	20	100.00
21	100.00	10.00	21	100.00	10.00	21	100.00
22	100.00	10.00	22	100.00	10.00	22	100.00
23	100.00	10.00	23	100.00	10.00	23	100.00
24	100.00	10.00	24	100.00	10.00	24	100.00
25	100.00	10.00	25	100.00	10.00	25	100.00
26	100.00	10.00	26	100.00	10.00	26	100.00
27	100.00	10.00	27	100.00	10.00	27	100.00
28	100.00	10.00	28	100.00	10.00	28	100.00
29	100.00	10.00	29	100.00	10.00	29	100.00
30	100.00	10.00	30	100.00	10.00	30	100.00
31	100.00	10.00	31	100.00	10.00	31	100.00
32	100.00	10.00	32	100.00	10.00	32	100.00
33	100.00	10.00	33	100.00	10.00	33	100.00
34	100.00	10.00	34	100.00	10.00	34	100.00
35	100.00	10.00	35	100.00	10.00	35	100.00
36	100.00	10.00	36	100.00	10.00	36	100.00
37	100.00	10.00	37	100.00	10.00	37	100.00
38	100.00	10.00	38	100.00	10.00	38	100.00
39	100.00	10.00	39	100.00	10.00	39	100.00
40	100.00	10.00	40	100.00	10.00	40	100.00
41	100.00	10.00	41	100.00	10.00	41	100.00
42	100.00	10.00	42	100.00	10.00	42	100.00
43	100.00	10.00	43	100.00	10.00	43	100.00
44	100.00	10.00	44	100.00	10.00	44	100.00
45	100.00	10.00	45	100.00	10.00	45	100.00
46	100.00	10.00	46	100.00	10.00	46	100.00
47	100.00	10.00	47	100.00	10.00	47	100.00
48	100.00	10.00	48	100.00	10.00	48	100.00
49	100.00	10.00	49	100.00	10.00	49	100.00
50	100.00	10.00	50	100.00	10.00	50	100.00
51	100.00	10.00	51	100.00	10.00	51	100.00
52	100.00	10.00	52	100.00	10.00	52	100.00
53	100.00	10.00	53	100.00	10.00	53	100.00
54	100.00	10.00	54	100.00	10.00	54	100.00
55	100.00	10.00	55	100.00	10.00	55	100.00
56	100.00	10.00	56	100.00	10.00	56	100.00
57	100.00	10.00	57	100.00	10.00	57	100.00
58	100.00	10.00	58	100.00	10.00	58	100.00

[illegible]

NAV	NAV
Assets	Assets
Liabilities	Liabilities
Net Assets	Net Assets
NAV	NAV
26.79	108.0
21.16	319.0
	205.0
	182.0

[illegible][illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar struggles to advance

AGREEMENT on Germany's solidarity pact yesterday strengthened expectations on the foreign exchange markets for a cut in the Bundesbank's official lending rates, writes Emma Tucker.

Hopes that the German central bank will announce a half-point reduction in the discount rate on Thursday were buoyed by reports that Germany's political parties, federal states, employers and trades unions had agreed on a public financing package to underpin the east German economy.

Initially the dollar was the chief beneficiary of the news, although by the end of European trading it had failed to break through Friday's close of DM1.6655.

Analysts are somewhat bemused as to why the dollar remains trapped in such a narrow trading range after good nonfarm pay roll figures of a week ago, political unrest in the former Soviet Union and strong prospects for a German rate cut, should have combined to give the currency a strong upwards boost.

"I think the markets are getting a bit impatient with the inability of the dollar to move higher, but at the same time no one has the guts to push it

too far down because the expectation is still that it will rally," said Mr Christian Dunis of Chemical Bank in London. Mr Dunis pointed out that the difference between US and German lending rates remains significant while the market is waiting to see what the Bundesbank will do later this week. The dollar made no gains on the day, closing marginally lower at DM1.6615.

The pound did not react to the growing prospects of German monetary easing, continuing to trade in a very narrow range ahead of today's Budget. Although a cut in German rates would make it easier for the UK authorities to reduce interest rates, the Bank of England and the Treasury have been discouraging expectations of further monetary easing.

Official resolve will have been strengthened by yesterday's news that manufacturing output rose a better than

expected 0.8 per cent in January. The figure added to evidence that a modest economic recovery is taking place in the UK. The pound fell half a pence on the day to close at DM2.3835. Against the dollar it closed barely changed at \$1.4345.

Tensions within the European exchange mechanism were held at bay. The escudo, which came under pressure at the end of last week following reported differences between the central bank and the government, regained stability. In later trade it eased lower to just over Ecs80 per D-Mark. The peseta was also slightly weaker closing at Ptas741. The French franc closed virtually unchanged at Ffr4.01.

Potential for strains within the system remain, however, and dealers yesterday warned that failure by the Bundesbank to act on Thursday could put the mechanism's weaker currencies under pressure.

EMS EUROPEAN CURRENCY UNIT RATES

Currency	Unit	% Change	% Spread	Divergence
Spanish Peseta	162.156	-0.0001	0.0001	0.0001
Irish Punt	0.78622	-0.0001	0.0001	0.0001
Dutch Guilder	2.36363	-0.0001	0.0001	0.0001
Belgian Franc	40.3399	-0.0001	0.0001	0.0001
D-Mark	1.93624	-0.0001	0.0001	0.0001
Portuguese Escudo	200.482	-0.0001	0.0001	0.0001
Swedish Krona	4.66335	-0.0001	0.0001	0.0001
French Franc	6.55958	-0.0001	0.0001	0.0001

European rates set by the European Commission. Changes are in descending order of strength. Percentage change shows the change in the rate of the currency against the unit of the currency. The percentage spread shows the difference between the actual rate and the rate of the currency against the unit of the currency. The divergence shows the difference between the actual rate and the rate of the currency against the unit of the currency.

£ IN NEW YORK

Unit	Mar 15	Mar 16	Previous
1 £	1.4350-1.4360	1.4350-1.4360	1.4350
1 £	0.37-0.38	0.37-0.38	0.37
1 £	0.95-0.96	0.95-0.96	0.95
1 £	2.40-2.41	2.40-2.41	2.40

Forward premiums and discounts apply to the US dollar.

STERLING INDEX

Unit	Mar 15	Mar 16	Previous
1 £	1.4350-1.4360	1.4350-1.4360	1.4350
1 £	0.37-0.38	0.37-0.38	0.37
1 £	0.95-0.96	0.95-0.96	0.95
1 £	2.40-2.41	2.40-2.41	2.40

CURRENCY RATES

Unit	Mar 15	Mar 16	Previous
1 £	1.4350-1.4360	1.4350-1.4360	1.4350
1 £	0.37-0.38	0.37-0.38	0.37
1 £	0.95-0.96	0.95-0.96	0.95
1 £	2.40-2.41	2.40-2.41	2.40

CURRENCY MOVEMENTS

Unit	Mar 15	Mar 16	Previous
1 £	1.4350-1.4360	1.4350-1.4360	1.4350
1 £	0.37-0.38	0.37-0.38	0.37
1 £	0.95-0.96	0.95-0.96	0.95
1 £	2.40-2.41	2.40-2.41	2.40

OTHER CURRENCIES

Unit	Mar 15	Mar 16	Previous
1 £	1.4350-1.4360	1.4350-1.4360	1.4350
1 £	0.37-0.38	0.37-0.38	0.37
1 £	0.95-0.96	0.95-0.96	0.95
1 £	2.40-2.41	2.40-2.41	2.40

FINANCIAL FUTURES AND OPTIONS

LIVE LONG CITY FUTURES OPTIONS

Unit	Mar 15	Mar 16	Previous
1 £	1.4350-1.4360	1.4350-1.4360	1.4350
1 £	0.37-0.38	0.37-0.38	0.37
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1 £	2.40-2.41	2.40-2.41	2.40

LIVE EURO SWISS FRANK OPTIONS

Unit	Mar 15	Mar 16	Previous
1 £	1.4350-1.4360	1.4350-1.4360	1.4350
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FINANCIAL FUTURES AND OPTIONS

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LIVE EURO SWISS FRANK OPTIONS

Unit	Mar 15
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To: Gillian Hart, Financial Times (Europe) GmbH, Nibelungenplatz 3, D-6000 Frankfurt/Main 1, Germany. Tel. + 49 69 1569 01. Tlx. 4161 01. Fax. + 49 69 936 4461

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 am close March 15

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Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page									
Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
IBM Corp	125.00	124.00	124.50	124.50	+0.50	1,200,000	125.00	124.00	124.50
Microsoft	100.00	99.00	99.50	99.50	+0.50	800,000	100.00	99.00	99.50
Apple Computer	80.00	79.00	79.50	79.50	+0.50	600,000	80.00	79.00	79.50
Oracle Corp	60.00	59.00	59.50	59.50	+0.50	400,000	60.00	59.00	59.50
Sun Microsystems	50.00	49.00	49.50	49.50	+0.50	300,000	50.00	49.00	49.50
Novell Inc	40.00	39.00	39.50	39.50	+0.50	200,000	40.00	39.00	39.50
Lotus Development	30.00	29.00	29.50	29.50	+0.50	100,000	30.00	29.00	29.50
Intuit Inc	20.00	19.00	19.50	19.50	+0.50	50,000	20.00	19.00	19.50
Visiotech Corp	10.00	9.00	9.50	9.50	+0.50	20,000	10.00	9.00	9.50
VeriFone Inc	8.00	7.00	7.50	7.50	+0.50	10,000	8.00	7.00	7.50
WorldCom Inc	7.00	6.00	6.50	6.50	+0.50	5,000	7.00	6.00	6.50
Qwest Communications	6.00	5.00	5.50	5.50	+0.50	3,000	6.00	5.00	5.50
Southwest Airlines	5.00	4.00	4.50	4.50	+0.50	2,000	5.00	4.00	4.50
Delta Air Lines	4.00	3.00	3.50	3.50	+0.50	1,000	4.00	3.00	3.50
United Airlines	3.00	2.00	2.50	2.50	+0.50	500	3.00	2.00	2.50
Southwest Air	2.00	1.00	1.50	1.50	+0.50	200	2.00	1.00	1.50
Delta Air	1.00	0.50	0.75	0.75	+0.25	100	1.00	0.50	0.75
United Air	0.50	0.25	0.375	0.375	+0.125	50	0.50	0.25	0.375
Southwest	0.25	0.125	0.1875	0.1875	+0.0625	25	0.25	0.125	0.1875
Delta	0.125	0.0625	0.09375	0.09375	+0.03125	12	0.125	0.0625	0.09375
United	0.0625	0.03125	0.046875	0.046875	+0.015625	6	0.0625	0.03125	0.046875
Southwest	0.03125	0.015625	0.0234375	0.0234375	+0.0078125	3	0.03125	0.015625	0.0234375
Delta	0.015625	0.0078125	0.01171875	0.01171875	+0.00390625	1	0.015625	0.0078125	0.01171875
United	0.0078125	0.00390625	0.005859375	0.005859375	+0.001953125	0	0.0078125	0.00390625	0.005859375
Southwest	0.00390625	0.001953125	0.0029296875	0.0029296875	+0.0009765625	0	0.00390625	0.001953125	0.0029296875
Delta	0.001953125	0.0009765625	0.001471875	0.001471875	+0.00048828125	0	0.001953125	0.0009765625	0.001471875
United	0.0009765625	0.00048828125	0.000734375	0.000734375	+0.000244140625	0	0.0009765625	0.00048828125	0.000734375
Southwest	0.00048828125	0.000244140625	0.0003659375	0.0003659375	+0.0001220703125	0	0.00048828125	0.000244140625	0.0003659375
Delta	0.000244140625	0.0001220703125	0.0001828125	0.0001828125	+0.00006103515625	0	0.000244140625	0.0001220703125	0.0001828125
United	0.0001220703125	0.00006103515625	0.00009140625	0.00009140625	+0.000030517578125	0	0.0001220703125	0.00006103515625	0.00009140625
Southwest	0.00006103515625	0.000030517578125	0.00004578125	0.00004578125	+0.0000152587890625	0	0.00006103515625	0.000030517578125	0.00004578125
Delta	0.000030517578125	0.0000152587890625	0.000022890625	0.000022890625	+0.00000762939453125	0	0.000030517578125	0.0000152587890625	0.000022890625
United	0.0000152587890625	0.00000762939453125	0.0000116796875	0.0000116796875	+0.000003814697265625	0	0.0000152587890625	0.00000762939453125	0.0000116796875
Southwest	0.00000762939453125	0.000003814697265625	0.000005809375	0.000005809375	+0.0000019047986328125	0	0.00000762939453125	0.000003814697265625	0.000005809375
Delta	0.000003814697265625	0.0000019047986328125	0.0000029046875	0.0000029046875	+0.00000095239931640625	0	0.000003814697265625	0.0000019047986328125	0.0000029046875
United	0.0000019047986328125	0.00000095239931640625	0.000001428125	0.000001428125	+0.000000476199658203125	0	0.0000019047986328125	0.00000095239931640625	0.000001428125
Southwest	0.00000095239931640625	0.000000476199658203125	0.0000007140625	0.0000007140625	+0.0000002380998291015625	0	0.00000095239931640625	0.000000476199658203125	0.0000007140625
Delta	0.000000476199658203125	0.0000002380998291015625	0.0000003559375	0.0000003559375	+0.00000011904991455078125	0	0.000000476199658203125	0.0000002380998291015625	0.0000003559375
United	0.0000002380998291015625	0.00000011904991455078125	0.0000001796875	0.0000001796875	+0.000000059524957275390625	0	0.0000002380998291015625	0.00000011904991455078125	0.0000001796875
Southwest	0.00000011904991455078125	0.000000059524957275390625	0.00000008984375	0.00000008984375	+0.0000000299483174296875	0	0.00000011904991455078125	0.000000059524957275390625	0.00000008984375
Delta	0.000000059524957275390625	0.0000000299483174296875	0.000000044890625	0.000000044890625	+0.00000001496410938671875	0	0.000000059524957275390625	0.0000000299483174296875	0.000000044890625
United	0.0000000299483174296875	0.00000001496410938671875	0.00000002240625	0.00000002240625	+0.0000000074850359384375	0	0.0000000299483174296875	0.00000001496410938671875	0.00000002240625
Southwest	0.00000001496410938671875	0.0000000074850359384375	0.00000001128125	0.00000001128125	+0.00000000374251796921875	0	0.00000001496410938671875	0.0000000074850359384375	0.00000001128125
Delta	0.0000000074850359384375	0.00000000374251796921875	0.000000005640625	0.000000005640625	+0.000000001871258984609375	0	0.0000000074850359384375	0.00000000374251796921875	0.000000005640625
United	0.00000000374251796921875	0.000000001871258984609375	0.0000000028309375	0.0000000028309375	+0.0000000009237794921875	0	0.00000000374251796921875	0.000000001871258984609375	0.0000000028309375
Southwest	0.000000001871258984609375	0.0000000009237794921875	0.000000001421875	0.000000001421875	+0.000000000460938984375	0	0.000000001871258984609375	0.0000000009237794921875	0.000000001421875
Delta	0.0000000009237794921875	0.000000000460938984375	0.0000000007109375	0.0000000007109375	+0.0000000002304694921875	0	0.0000000009237794921875	0.000000000460938984375	0.0000000007109375
United	0.000000000460938984375	0.0000000002304694921875	0.0000000003559375	0.0000000003559375	+0.00000000011523474609375	0	0.000000000460938984375	0.0000000002304694921875	0.0000000003559375
Southwest	0.0000000002304694921875	0.00000000011523474609375	0.0000000001796875	0.0000000001796875	+0.000000000057617373046875	0	0.0000000002304694921875	0.00000000011523474609375	0.0000000001796875
Delta	0.00000000011523474609375	0.000000000057617373046875	0.00000000008984375	0.00000000008984375	+0.0000000000288086865234375	0	0.00000000011523474609375	0.000000000057617373046875	0.00000000008984375
United	0.000000000057617373046875	0.0000000000288086865234375	0.000000000044890625	0.000000000044890625	+0.00000000001440434326171875	0	0.000000000057617373046875	0.0000000000288086865234375	0.000000000044890625
Southwest	0.0000000000288086865234375	0.00000000001440434326171875	0.00000000002240625	0.00000000002240625	+0.000000000007202171630859375	0	0.0000000000288086865234375	0.00000000001440434326171875	0.00000000002240625
Delta	0.00000000001440434326171875	0.000000000007202171630859375	0.00000000001128125	0.00000000001128125	+0.0000000000036010858154296875	0	0.00000000001440434326171875	0.000000000007202171630859375	0.00000000001128125
United	0.000000000007202171630859375	0.0000000000036010858154296875	0.000000000005640625	0.000000000005640625	+0.0000000000018005429077145625	0	0.000000000007202171630859375	0.0000000000036010858154296875	0.000000000005640625
Southwest	0.0000000000036010858154296875	0.0000000000018005429077145625	0.0000000000028309375	0.0000000000028309375	+0.000000000000900271453859375	0	0.0000000000036010858154296875	0.0000000000018005429077145625	0.0000000000028309375
Delta	0.0000000000018005429077145625	0.000000000000900271453859375	0.000000000001421875	0.000000000001421875	+0.0000000000004501357269296875	0	0.0000000000018005429077145625	0.000000000000900271453859375	0.000000000001421875
United	0.000000000000900271453859375	0.0000000000004501357269296875	0.0000000000007109375	0.0000000000007109375	+0.00000000000022506786346484375	0	0.000000000000900271453859375	0.0000000000004501357269296875	0.0000000000007109375
Southwest	0.0000000000004501357269296875	0.00000000000022506786346484375	0.0000000000003559375	0.0000000000003559375	+0.000000000000112533931732421875	0	0.0000000000004501357269296875	0.00000000000022506786346484375	0.0000000000003559375
Delta	0.00000000000022506786346484375	0.000000000000112533931732421875	0.0000000000001796875	0.0000000000001796875	+0.0000000000000562669658662109375	0	0.00000000000022506786346484375	0.000000000000112533931732421875	0.0000000000001796875
United	0.000000000000112533931732421875	0.0000000000000562669658662109375	0.00000000000008984375	0.00000000000008984375	+0.0000000000000281334829331046875	0	0.000000000000112533931732421875	0.0000000000000562669658662109375	0.00000000000008984375
Southwest	0.0000000000000562669658662109375	0.0000000000000281334829331046875	0.000000000000044890625	0.000000000000044890625	+0.00000000000001406674146655234375	0	0.0000000000000562669658662109375	0.0000000000000281334829331046875	0.000000000000044890625
Delta	0.0000000000000281334829331046875	0.00000000000001406674146655234375	0.00000000000002240625	0.00000000000002240625	+0.000000000000007033370733276171875	0	0.0000000000000281334829331046875	0.00000000000001406674146655234375	0.00000000000002240625
United	0.00000000000001406674146655234375	0.000000000000007033370733276171875	0.00000000000001128125	0.00000000000001128125	+0.0000000000000035166853666380859375	0	0.00000000000001406674146655234375	0.000000000000007033370733276171875	0.00000000000001128125
Southwest	0.000000000000007033370733276171875	0.0000000000000035166853666380859375	0.000000000000005640625	0.000000000000005640625	+0.00000000000000175834268331904296875	0	0.000000000000007033370733276171875	0.0000000000000035166853666380859375	0.000000000000005640625
Delta	0.0000000000000035166853666380859375	0.00000000000000175834268331904296875	0.0000000000000028309375	0.0000000000000028309375	+0.0000000000000008791713416596484375	0	0.0000000000000035166853666380859375	0.00000000000000175834268331904296875	0.0000000000000028309375
United	0.00000000000000175834268331904296875	0.0000000000000008791713416596484375	0.0000000000						

AMERICA

Dow slips from its highs after firm opening

Wall Street

US stocks traded in a narrow range yesterday, holding on to modest gains in spite of another fall in bond prices, writes Patrick Harverson in New York.

At 1 p.m., the Dow Jones Industrial Average was 3,511 higher at 3,431.23. The more broadly based Standard & Poor's 500 was up 0.23 at 450.06, while the Amex composite was 0.54 higher at 421.63, and the Nasdaq composite up 1.48 at 694.26. Trading volume on the NYSE was 115m shares by 1 p.m.

In the wake of Friday's precipitous decline, the markets proved their resilience yesterday by opening firmer, with prices showing solid gains across the board in the first 30 minutes of trading.

Yet, the gains proved primarily a knee-jerk reaction to the previous session's losses. In the absence of fresh economic news, the markets struggled to find a direction, allowing prices to slip back from their highs. Sentiment was undermined, also, by a sudden downturn mid-morning in the bond market, where inflation-sensitive investors took fright at a sudden rise in commodities. Equities, however, were supported by continued strong inflows of cash as investors showed few signs of turning away from stocks, which they view as offering the best potential returns in the low-interest rate environment.

Nike jumped 3% to 75% after the sports shoe and apparel maker reported fiscal third quarter net income of \$89.5m, up from \$82.5m and a record for the company. Although the profits were slightly below market expectations, investors were impressed by reports that Nike's orders for the next few months were up 21 per cent on the comparable period a year ago. Bank stocks were weaker fol-

lowing the latest rise in bond market interest rates. BankAmerica fell 1% to 52%, Citicorp eased 1% to 52%, Chemical slipped 1% to 42%, and Chase Manhattan dropped 1% to 34%, in spite of a ratings upgrade from Merrill Lynch.

Vehicle stocks were lifted by news of strong car and truck sales for the first 10 days of March: General Motors rose 1% to 39, Ford added 1% to 48% and Chrysler firmed 1% to 39. Brokerage stocks were higher because of the heavy demand for their services from individual investors, which is boosting commission revenues and asset management profits. Merrill Lynch climbed 1% to 57, Charles Schwab added 1% to 60, and FiskeWebber put on 1% to 62.

Storage Technology, which jumped sharply on Friday, rose another 1% to 37, on hopes that testing of the company's Isberg data storage system is progressing well.

Canada

TORONTO eased on light bouts of profit-taking following gains last week. The metals group was among the exchange's biggest losers, led by Inco which eased 0.5% to C\$28 in light activity.

The TSX-300 Index fell 4.06 to 3,544.00 in volume of 21.5m shares valued at C\$156m, declines leading advances by 230 to 219 with 289 unchanged. Eight of the TSX's 14 indices were lower at midday. Golds, buoyed by strength in bullion futures, were broadly higher, along with the pipelines and transportation groups.

SOUTH AFRICA

JOHANNESBURG saw industrial recovery from early lows to end with a 13 point gain at 4,482 as the overall index added 9 to 3,459. The golds index finished at a high for the year, up 15 at 1,063. Angles put on R1 at R98.75.

ASIA PACIFIC

Pacific Basin in ferment as Nikkei rises again

Tokyo

SHARE prices fluctuated on technical activity, but the Nikkei average finally registered its seventh consecutive gain, writes Emilio Terrazono in Tokyo.

The Nikkei ended 48.86 higher at 18,086.18. It fell to the day's low of 17,987.16 in the morning and rose to the session's high of 18,189.16 in the afternoon, before fluctuating on arbitrage trading.

Volume fell to 350m shares from Friday's 771m. Advances led declines by 690 to 347, with 136 issues unchanged. The Topix index of all first section stocks put on 2.66 at 1,353.60 and, in London, the ISE/Nikkei 50 index firmed 1.15 to 1,081.14.

Activity was led by individual speculators and dealers, while most institutional investors remained on the sidelines. Traders said some US pension funds were looking to increase their weightings in Japanese shares, but that European

investors, who have foreign exchange profits on their holdings, were reducing their allocations.

Mr Jason James, a strategist at James Capel, said share prices could ease during the second quarter of this year, and that there was little need for hasty buy decisions. "The market will correct after the fiscal year-end, with 16,000 at the lowest end of the range," he added.

Short term trading centred around companies related to Nippon Telegraph and Telephone, and the Japan Rail Group. NTT took a breather, retreating 7,000 to Y83,000 on profit-taking. Iwatsu Electric, which has close business ties with NTT, was the day's most active issue, forging ahead Y43 to Y53.

Nippon Express appreciated Y6 to Y25. The company is considered a JR-related stock, due to its land holdings around JR railway stations. Nabco, a Kobe Steel affiliate which makes automobile and railway

brakes, climbed Y80 to Y570 on a report that it had developed a new air-brake system with JR researchers.

High-technology shares were lower on profit-taking by individual investors. Hitachi dipped Y4 to Y753, Toshiba Y12 to Y806 and NEC Y12 to Y767.

Kyowa Hakko Kogyo surged by its daily limit of Y101 to Y1,100 on reports of its development of an anti-cancer agent.

In Osaka, the OSE average was up 15.35 to 18,076.15 in volume of 45m shares. The index rose above the 19,000 mark for the first time since December 25 last year.

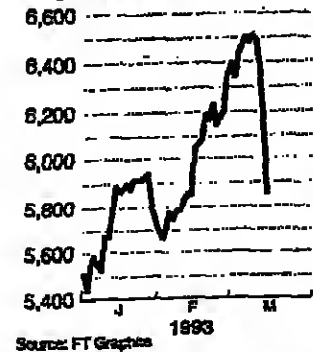
Roundup

EVENTS of the weekend, and last week, had a powerful impact in the region.

HONG KONG dropped a further 5.1 per cent on China's angry reaction to Governor Chris Patten's decision to proceed with democratic reform. The Hang Seng index finished

Hong Kong

Hang Seng Index



at 5,854.61, down 315.79 but up from a day's low of 5,792.18. However, London over-the-counter trading was more positive, indicating an improvement in the index of about 100 points.

Turnover stayed high, totaling HK\$3.28m, although down from Friday's HK\$3.32m. HSBC finished HK\$1.50 down at HK\$64.50. After the market closed, the group reported a

68 per cent jump in 1992 net profits, but shares in its Hang Seng Bank unit lost HK\$3.50 to HK\$62.50. HSBC closed later in London HK\$1.50 better at HK\$66.30.

AUSTRALIA subdued on Labor's election win and falls on overseas markets, the All Ordinaries index ending 35.1 off at 1,626.4 after a day's low of 1,614.0. Labor's promise of a reduction in company tax and indications that it will cut interest rates helped to mollify investors.

Bank shares were sold as hopes of mergers were dashed by the coalition's election loss. ANZ fell 32 cents to A\$3.26, Westpac 11 cents to A\$3.09 and NAB 8 cents to A\$2.47.

Among retailers, Coles dropped 15 cents to A\$4.55 and Foodland receded 15 cents to A\$4.75. Investors had hoped that a coalition government would benefit retailers by scrapping payroll tax and exempting food from its goods and services tax.

NEW ZEALAND shed 1.4 per

cent on Labor's surprise win in Australia, the NZSE-40 index closing at 1,667.04, down 21.58.

SINGAPORE's Straits Times Industrial index, hurt by Hong Kong and poorer than expected results posted by Singapore's key DBS Bank, slipped 22.07 to 1,630.81. MANILA lost 1.5 per cent in reaction to a PLDT slide on Wall Street, the composite index ending 23.03 lower at 1,471.68. PLDT fell 51% to 33% in New York on Friday.

SEOUL rose for the third straight session, the composite index closing 10.80 higher at 645.73 on renewed hopes that the government may set aside an announcement which would phase out widespread clandestine trading. TAIWAN put on 2.1 per cent in thin trading, the weighted index ending 83.16 better at 4,507.00.

BOMBAY resumed trading for one hour after last Friday's bomb blast caused extensive damage to the stock exchange building. The BSE index finished at 2,416.28, a rise of 86.19 from Thursday's close.

EUROPE

Agreement on 'solidarity pact' lifts senior bourses

AFTER the slump last Friday afternoon on storm signals in Russia and the New York equity market, bourses mostly recovered yesterday, writes Our Markets Staff.

Sentiment, especially in Germany, France and Switzerland, was lifted by the weekend conclusion of the German 'solidarity pact', involving agreed political, corporate and trade union initiatives in the financing of German unification.

FRANKFURT looked undecided, the DAX index ending 4.57 lower at 1,702.57. But this obscured the recovery from the tumble share prices had taken on Friday afternoon.

Mr Hans Peter Wodnick, of James Capel in Frankfurt, said that on the this screen system, share prices yesterday afternoon were running 1% per cent of Friday evening's at DM723 against an official close of DM720.80, down 2 pps.

Turnover fell from DM6.6bn to DM6.2bn. Exceptions to the solidarity celebration included

Volkswagen and Hoechst, which closed DM7.30 lower at DM285.50, and DM4.80 down at DM249 respectively.

Over the weekend, VW lost a senior management prospect as General Motors's J. Ignacio Lopez de Arriortua announced he would stay with GM. VW subsided further to DM283.60 in the aftermarket on industry indications that the carmaker's dividend would be cut from DM11 to DM9 for 1992, rather than the expected DM4 or DM5.

Hoechst hit more trouble when its Frankfurt plant suffered an explosion early yesterday, the chemical group's fourth accident in Germany in the last month.

MILAN reacted fairly calmly to news that the state holding group, was to take a L340bn loan from its telecommunications subsidiary Stet in exchange for granting it the dividend rights for three years in another of its subsidiaries, Banco Commerciale. The Comit index, on the last day of the March account, lost 5.83 to

FT-SE Actuaries Share Indices

March 15		THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close	
FT-SE Eurotrack 100	1165.56	1165.69	1165.44	1164.42	1162.25	1162.38	1163.70	1163.62	1163.62
FT-SE Eurotrack 200	1221.57	1222.39	1222.04	1220.84	1219.72	1219.51	1219.70	1219.52	1219.52
FT-SE Eurotrack 150	1145.86	1145.80	1145.72	1145.32	1144.25	1144.25	1145.04		1145.04
FT-SE Eurotrack 200	1212.44	1212.44	1212.53	1213.55	1213.55	1213.72	1213.72		1213.72
Base value 1000 (20/10/92) January 1992 - 1156.52, July - 1233.35, January 1993 - 1191.96, 200 - 1217.87									

509.42

1223.34

the correct choice, in

508.42

In spite of the slight losses, Stet down L13 at L2,174 and Commerciale off L170 at L4,530, some analysts commented that the news placed doubts on the success of the government's privatisation programme with Stet holding some 52 per cent of Commerciale's equity it was now problematic how the latter's planned privatisation could proceed.

Olivetti was the day's other story, although the shares were suspended at L2,202 pending its surprise announcement of a L800m rights issue. Mr John Stewart of Pastorino com-

mented that the group, in effect, was seeking the new funds to rebuild its net assets after sustaining losses of over L1,100bn during the last two years.

PARIS strengthened on hopes of easier European interest rates and the CAC-40 index closed 20.50 firmer at 1,886.03. However, turnover was relatively thin at FF2.3bn.

Interest rate-sensitive stocks were the day's main gainers in the absence of fresh corporate news. Euro Disney advanced FF2.40 to FF38.35, also helped by the warm weather which has recently boosted atten-

dance levels. Paribas rose FF6.20 to FF422.20 and Suez was up FF6.20 at FF330.90.

AMSTERDAM recovered from Friday's losses with a gain in the CBS Tendency index of 1.3 to 105.5. Wolters Kluwer, the publishing group, which reports 1992 earnings today, stood 80 cents higher at FL88.80. Analysts expect the group to see an improvement in last year's results of between 15 and 20 per cent.

Fokker put on 20 cents to FL11.20 and announced that it was delaying publication of its 1992 earnings, which had been due on Thursday, until April 2 pending confirmation that the takeover by Deutsche Aerospace was to proceed.

ZURICH took its recovery mainly in chemicals and Nestlé as the SMI index rose 28.1 to 2,157.0. Roche gained SF80 to SF4,090 on anticipation that the company will simplify its share structure and will post good 1992 results, and Nestlé rose SF30 to SF11,160. Banks were firmer on inter-

est rate hopes, although CS Holding stood out with a rise of SF90 to SF2,270. Insurers were weak on fears that storms in the US would lead to high claims. Swiss Re losing SF60 to SF3,120 and Winterthur SF40 to SF3,320.

STOCKHOLM remained subdued as investors awaited tomorrow's vote of confidence in the government. The Affarsvarden general index fell 1.4 to 1,001.1 in turnover of SKr633m, down from Friday's SKr655m. Procordia, the food and pharmaceuticals group, went against the trend, rising SKr2 to SKr190, still helped by last week's publication of good 1992 earnings.

HELSINKI was pulled lower by financial difficulties facing construction company Polar and the Hex index fell 28.2 to 963.1. Repola, which has a 12.9 per cent stake in Polar, lost FM4.30 to FM56.70. OSLO, however, strengthened with a gain in the All Share index of 8.02 to 442.61, for a rise of some 10 per cent since March 4.

Political backcloth to global equity shifts

MARKETS IN PERSPECTIVE

	% change in local currency			% change sterling	% change in US \$
	1 Week	4 Weeks	1 Year	Start of 1992	Start of 1993
Austria	-1.43	+4.88	-14.23	+7.89	+4.52
Belgium	+2.26	+4.02	+4.68	+11.85	+14.64
Denmark	-1.08	-1.43	-17.27	+9.26	+12.92
Finland	-1.69	+8.63	+21.35	+22.13	+10.83
France	-1.11	+3.46	+15.79	+7.63	+10.77
Germany	+1.51	+3.42	-3.74	+11.96	+14.26
Ireland	+2.15	+9.56	-2.12	+15.46	+9.62
Italy	-4.31	+5.23	+8.23	+16.73	+14.87
Netherlands	-0.01	+4.09	+8.67	+9.85	+12.76
Norway	+5.87	+3.90	-2.64	+10.13	+13.62
Spain	-0.88	-0.81	-7.07	+11.84	+13.51
Sweden	-0.29	+2.30	+15.79	+6.84	+2.32
Switzerland	-0.21	+0.13	+17.81	+5.42	+5.10
UK	-0.26	+2.56	+17.81	+9.15	+9.15
EUROPE	-0.21	+2.76	+6.76	+6.94	+7.91

Australia	+3.18	+4.12	+2.47	+7.43	+18.47
Hong Kong	-4.50	+5.81	+17.87	+11.85	+17.97
Japan	+6.76	+4.96	-6.23	+3.43	+15.78
Malaysia	-0.46	+1.72	+18.71	+6.89	+12.29
New Zealand	+1.75	+1.13	+5.95	+4.92	+13.69
Singapore	-2.44	-0.08	+2.72	+2.18	+7.37
Canada	+0.72	+2.62	-1.36	+4.65	+12.87
USA	+0.90	+1.17	+11.36	+8.19	+8.94
Mexico	+3.27	-0.70	-6.14	-6.13	-6.10
South Africa	+2.43	-0.42	-6.39	+5.62	+16.66
WORLD INDEX	+2.01	+2.84	+5.01	+4.38	+10.75

1 Based on March 12th 1993. Copyright, The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited.

By John Pitt

Politics provided the set for last week's drama on some of the world's equity markets.

While Hong Kong fell sharply after Chris Patten, the colony's governor, enraged the Chinese on Friday by saying that he was to press ahead with democratic reform proposals, Australia rose, anticipating a change of government. Japan provided support for the 2 per cent gain in the FT-Actuaries world index, as the Nikkei average closed the week at a six-month high.

The slide in Hong Kong continued yesterday, with the Hang Seng index having lost some 6 per cent over the two days. However, many analysts believe that the worst is now over and anticipate short term support at the 5,800 level. Most of the selling has come from domestic investors, with foreign institutions remaining on the sidelines, they comment; and the excellent results from HSBC have refocused attention on the underlying

strength of corporate earnings.

Regarding Mr Patten's efforts to seize the political initiative with his proposals to extend democracy, Mr David Bates of Asia Equity comments that there are doubts whether they will even reach the colony's Legislative Council. As yet a date has not been set for debate but, says Mr Bates, there are indications that the LegCo is evenly divided.

Australia rallied as investors anticipated defeat for Mr Paul Keating and his Labor government; but Labor, having clinched victory, the equity market yesterday lost 2 per cent.

Mr Peter Wade of brokers J.B. Were in London commented that expectations that the Liberal/National party would seek further rationalisation of the banking sector and privatisation of public sector companies had driven the market higher in the pre-election weeks. Nevertheless, with the likelihood of cuts in interest rates and corporate tax the downside in the market would probably be limited.

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